Minutes for June 2, 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
Discount rates. The establishment without change by the Federal Reserve Banks of New York, Cleveland, Richmond, St. Louis, Kansas City, and Dallas on May 28, 1964, and by the Federal Reserve Bank of Atlanta on May 29, 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.

Distributed items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:
Telegram to the Federal Reserve Agent at Boston authorizing the issuance to Baystate Corporation, Boston, Massachusetts, of a general voting permit covering its stock of Merrimack Valley National Bank, Haverhill, Massachusetts.

Telegram to the Federal Reserve Agent at Kansas City authorizing the issuance to First Colorado Bankshares, Inc., Englewood, Colorado, of a general voting permit covering its stock of Security National Bank, Denver, Colorado.

Letter to Osceola Insurance, Inc., Osceola, Nebraska, granting a determination exempting it from all holding company affiliate requirements except those contained in section 23A of the Federal Reserve Act.

In connection with Item No. 3, Governor Robertson observed that although this was a one-bank case, the controlled bank (The First National Bank of Osceola, Osceola, Nebraska) was one unit of a planned group comprising several banks and other organizations under the common ownership of certain individuals. The case should be regarded in that light, rather than as one resulting from an accidental relationship. It appeared to fall squarely with the Board's policy applicable to so-called one-bank cases, but it illustrated what he regarded as the weakness of that policy. The situation pointed up the need for legislation such as recommended by the Board to bring one-bank situations within the purview of the Bank Holding Company Act.

Report on competitive factors (Chicago, Illinois). There had been distributed a draft of report to the Comptroller of the Currency

The majority of the members of the Board expressed satisfaction with the draft report, the conclusion of which stated, in part, that it did not appear that the proposed merger would have a significantly adverse effect on competition.

Governor Robertson, on the other hand, commented that he was not satisfied with the proposed report because the transaction would in his opinion reduce competition. With no branches permitted in Illinois, the merged bank could not be replaced by an office of the resulting bank. Thus there would be a loss of one unit bank and one banking office. People now doing business with National Bank of Commerce would have one of two options: (1) to do business with the resulting bank, the office of which would be about 5 miles from the existing office of National Bank of Commerce, or (2) to seek another banking connection. They would be deprived of one alternative banking choice in the area where National Bank of Commerce was now located. Because of the prohibition against branches, the banking facilities available to the public in Chicago were not as adequate as they otherwise would be; and the proposed merger would eliminate a facility that was of convenience to persons in the area concerned.

Other members of the Board observed that the area in which National Bank of Commerce was located was considered to be a declining
area economically, and that the immediate service area would continue to be served by four banks. It was suggested that the points raised by Governor Robertson might be regarded as going in part to the convenience and needs of the community served, a factor that the Comptroller would have to consider in deciding whether to approve the application.

Certain minor changes in the draft conclusion were suggested, following which a report in which the conclusion read as follows was approved for transmittal to the Comptroller, Governor Robertson dissenting:

Consummation of the proposed merger would eliminate a unit bank, a banking office, and the existing competition between the participating institutions. The Chicago area, however, is served by a large number of banks, some of which are many times as large as the continuing institution. Therefore, it does not appear that the transaction would have a significantly adverse effect on banking competition.

Messrs. Thompson and McClintock then withdrew from the meeting.

Report on H. R. 10506 (Item No. 4). There had been distributed to the Board, with a memorandum from the Legal Division dated May 27, 1964, a draft of reply to a request from Chairman Celler of the House Committee on the Judiciary for a report on H. R. 10506, a bill to amend section 8 of the Clayton Act with respect to interlocking relationships between financial institutions. The bill would broaden the Act to prohibit private bankers and directors, officers, employees, agents, or trustees of any Federally-insured bank, savings and loan association, or mutual savings bank from serving at the same time in any such capacity with any other banking organization or savings and loan association; it
would also prohibit some, if not all, chain banking by forbidding interlocking relationships by individuals owning any substantial beneficial stock or share interests in any organizations subject to the bill. Among other complications, the bill would bring back the problems of the pre-1935 era when the Board was required by the Clayton Act to grant individual permits for interlocking employment relationships and in so doing to decide whether the banks involved were in competition. Administrative and regulatory responsibility for the bill would be divided among five Federal agencies, including the Board, corresponding to the classes of institutions covered by the bill. The proposed reply to Chairman Celler would indicate that the Board favored the objective of extending the prohibitions of the Clayton Act to interlocking employment relationships involving all Federally-insured banks and savings and loan associations, but it would indicate that the Board, for reasons discussed in considerable detail, would oppose enactment of the bill in its present form.

Following comments by Mr. Shay and Mr. Cardon, general agreement was expressed by members of the Board with the substance of the proposed letter. The possible alternative of a brief letter, with attachment in the form of a staff memorandum, was mentioned, but the consensus favored the longer Board letter.
Governor Robertson, after expressing general agreement with the analysis presented in the draft, offered several suggestions regarding the letter, primarily to moderate the tone of the opposition expressed to the proposed legislation, to avoid the implication that it was felt that responsibility for administration should necessarily be placed in the Board (as contrasted with any other single banking agency), and to clarify the view that the stock ownership provisions of the bill, which related to the whole area of chain banking, should be dealt with in the banking laws rather than solely in the antitrust laws.

Agreement being expressed with suggestions along the lines presented by Governor Robertson, unanimous approval was given to a letter to Chairman Celler in the form attached as Item No. 4.

Request for competitive factor report (Item No. 5). There had been distributed a memorandum from the Division of Examinations dated June 1, 1964, advising that Mr. Charles Slay, Commissioner of Banking for the State of Michigan, had renewed his request for a copy of the Board’s report to the Comptroller of the Currency dated September 24, 1963, on the competitive factors involved in the proposed purchase of assets and assumption of liabilities of The Grand Ledge State Bank and the Loan and Deposit State Bank, both of Grand Ledge, Michigan, by Michigan National Bank, Lansing, Michigan. The State of Michigan had instituted legal action to stop these acquisitions, which had been approved by the Comptroller of the Currency. It was understood that Mr. Slay had
been furnished a copy of the report of the Department of Justice and that the Federal Deposit Insurance Corporation had agreed to make its report available to him. Mr. Slay stated that he knew Michigan National Bank had copies of all the competitive factor reports, as he had seen them. It was recommended that the Board's report be made available to Mr. Slay.

In commenting on the matter, Mr. Leavitt pointed out certain differences between the circumstances as they presently existed and as they existed on March 23, 1964, when the previous request of Mr. Slay was brought to the Board's attention.

There was agreement by the Board with the recommendation that the Board's report be made available to Mr. Slay. (A copy of the letter subsequently sent to Mr. Slay is attached as Item No. 5.) Governor Mills commented that he joined in the approval of the recommendation because of the changed circumstances that now prevailed, particularly the fact that the issues involved in the proposed asset acquisitions were currently being litigated.

Deposits by savings and loan associations. At Governor Balderston's request, Mr. Hackley reviewed for the Board's information the petitions filed last week by the Federal Deposit Insurance Corporation in the State District Court of Dallas County, Texas, asking for determinations as to whether certain purported "deposits" by savings and loan associations in two closed banks (First National Bank of Marlin, Marlin, Texas, and State
Savings Bank of Minden City, Minden City, Michigan) were in fact insured deposits or actually borrowed money. (A memorandum from Mr. Hackley dated June 1, 1964, was subsequently distributed to the Board.)

Mr. Hackley noted that the petitions did not expressly argue that payment of an interest rate in excess of that permitted by Regulation Q, Payment of Interest on Deposits, or by the comparable regulation of the Federal Deposit Insurance Corporation caused the funds to constitute borrowed money rather than insured deposits. However, the petitions could be regarded as implying that if a bank paid excessive interest on a purported deposit, the funds were not a deposit but a borrowing. If the Court should adopt this position, logically there could never be a violation of the pertinent provisions of Regulation Q.

Mr. Hackley also said there had been a meeting with staff of the Federal Deposit Insurance Corporation before the petitions were filed. The representatives of the Corporation were persuaded against basing the petitions entirely on the ground of payment of an excessive interest rate.

Attendance at Basle meeting. As recommended in a distributed memorandum dated June 1, 1964, from Mr. Young, Adviser to the Board and Director, Division of International Finance, the Board authorized attendance by Samuel I. Katz, Associate Adviser, Division of International Finance, at a meeting of experts on the Euro-currency market to be held at the Bank for International Settlements in Basle, Switzerland, on July 6-7,
1964, with the understanding that the Federal Reserve System also would be represented at the meeting by Fred H. Klopstock, Manager, Research Department, Federal Reserve Bank of New York, and David P. Eastburn, Vice President, Federal Reserve Bank of Philadelphia. It was understood that in view of his attendance at this meeting Mr. Katz would not attend the meeting of Working Party 3 of the Economic Policy Committee of the Organization for Economic Cooperation and Development to be held in Paris on July 14-17, 1964.

The meeting then adjourned.

Secretary's Notes: Attached as Items 6 and 7 are copies of telegrams sent today to the Federal Reserve Agent at Atlanta authorizing the issuance to The First National Bank of Tampa and Union Security & Investment Co., both of Tampa, Florida, of general voting permits covering their stock of The Broadway National Bank of Tampa and Second National Bank of Tampa. These telegrams were sent pursuant to the assurances given in the Board's letters of May 18, 1964, to The First National Bank of Tampa and Union Security & Investment Co.

Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Cleveland (attached Item No. 8) approving the appointment of David E. Bricker as examiner.

Letter to the Federal Reserve Bank of Atlanta (attached Item No. 9) approving the appointment of Carleton W. Sturtevant as examiner.

Telegram to the Federal Reserve Bank of Minneapolis (attached Item No. 10) approving the appointment of Ervin Eugene Johnson as assistant examiner.
CANHAM--BOSTON
KEBJE

A. Baystate Corporation, Boston, Massachusetts.
B. Merrimack Valley National Bank, Haverhill, Haverhill, Massachusetts.
C. None. STOP. Due to the fact that Baystate has executed voting permit agreement pursuant to F.R.L.S. #7190, which is in force and effect, an additional agreement is not needed.

(Signed) Karl E. Bakke
BAKKE

Definition of KEBJE

The Board authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B" at all meetings of shareholders of such bank(s), subject to the condition(s) stated below after the letter "C". The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).
June 2, 1964.

SCOTT--KANSAS CITY
KEBJE

A. First Colorado Bankshares, Inc., Englewood, Colorado.
B. Security National Bank, Denver, Colorado.
C. None. STOP. Due to the fact that Bankshares has executed voting permit agreement, pursuant to F.R.L.S. #7190, which is in force and effect, an additional agreement is not needed.

(Signed) Karl E. Bakke
BAKKE

Definition of KEBJE

The Board authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B" at all meetings of shareholders of such bank(s), subject to the condition(s) stated below after the letter "C". The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).
Mr. Roy Dinsdale, President,
Osceola Insurance, Inc.,
Osceola, Nebraska.

Dear Mr. Dinsdale:

This refers to the request contained in a letter dated April 27, 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 Osceola Insurance, Inc., Osceola, Nebraska, as a holding company affiliate.

From the information presented, the Board understands that Osceola Insurance, Inc.'s principal investments, other than in First National Bank of Osceola, are in a wholly owned insurance agency and a one-third partnership interest in a grain storing and merchandising company; that it is a holding company affiliate by reason of the fact that it owns or controls 210 (84 per cent) of the 250 outstanding shares of stock of The First National Bank of Osceola, Osceola, 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 Osceola 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, 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, President

If, however, the facts should at any time indicate that Osceola 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.
The Honorable Emanuel Celler, Chairman,
Judiciary Committee,
House of Representatives,
Washington, D. C. 20515

Dear Mr. Chairman:

This refers to your letter of March 23, 1964, in which you ask for the views of the Board on H. R. 10506, a bill "To amend section 8 of the Clayton Act with respect to interlocking relationships between financial institutions, and for other purposes".

The Board favors the objective of the bill to extend the prohibition of the statute to interlocking employment relationships involving any bank or savings and loan association with Federal deposit or account insurance. However, the Board would not favor enactment of the bill in its present form because of doubts concerning the proposed extension of the prohibition of the statute to cover the ownership by individuals of substantial beneficial stock interests without further studies of the implications of such an extension, and also because of certain provisions in the bill believed by the Board not to be administratively advisable or workable.

As it now stands, section 8 of the Act (15 U.S.C. 19) forbids private bankers and directors, officers, or employees of member banks of the Federal Reserve System or their branches from serving at the same time as directors, officers, or employees of any other banking institution organized under the National Bank Act or under the laws of any State or the District of Columbia. The statute grants the Board authority to permit persons, by regulation, to serve in one nonconforming interlocking relationship. In addition, the statute specifically exempts mutual savings banks and six other types of situations.
H. R. 10506 (by replacing the first three paragraphs of section 8 of the Act with a new section 8A) would broaden the prohibition of the present law to cover interlocking service relationships between any bank (including a mutual savings bank) or savings and loan association with Federal deposit or account insurance and any other banking organization or savings and loan association. Service as agent or trustee would be added to the presently forbidden service relationships.

Besides this, however, H. R. 10506 would further broaden the proscribed relationships by including also any individual owner of a substantial beneficial interest in the stock or shares of organizations subject to the bill. It would appear, therefore, that a director of an insured bank, for example, would be prohibited from being at the same time the owner of a substantial beneficial stock or share interest in any other bank or savings and loan association, and that ownership by an individual of such a stock or share interest in two insured institutions, or in an insured institution and any other bank or savings and loan association, would be forbidden also.

Instead of granting authority to permit by regulation one nonconforming relationship and entirely exempting certain classes of situations, as does the present law, the bill would authorize each of several designated Federal agencies to permit, by regulation, as many interlocking employment relationships as desired, but only in listed categories. These categories are similar to the specific exemptions in the present law, but the bill eliminates the exemption in the law which covers banking organizations not located and having no branch "in the same city, town, or village . . . or in any city, town, or village contiguous or adjacent thereto". A new category is inserted to permit interlocking service involving a small local institution in cases where the appropriate administrative authority makes certain specific favorable findings.

As noted above, the bill makes a significant change in dividing responsibility for its administration among the Board, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the Federal Savings and Loan Insurance Corporation. At present such responsibility is vested in a single agency, the Board.

The Board has previously called attention to the fact that section 8 of the Clayton Act is discriminatory in that it applies only where the interlocking relationship involves a member bank of the Federal Reserve System or a private bank. This discrimination, as well as the discrimination arising from the failure of the present law to apply in situations where Federally-supervised mutual savings banks and savings and loan associations are involved, would be remedied by the bill.
Stock ownership. - Chief among the problems arising from H. R. 10506 is the extension of the Clayton Act prohibitions to the individual ownership of substantial beneficial interests in the stock or shares of organizations subject to the bill. This proposed extension raises the whole issue of Federal regulation of chain banking (ownership by individuals of stock in two or more banks). This extremely complex issue, understood to be under current study by the House Committee on Banking and Currency, has defied resolution on numerous occasions in the past, especially in connection with enactment of the Bank Holding Company Act of 1956, and needs to be dealt with in a context broader than that of the antitrust aspect alone.

Even assuming that the measures proposed in H. R. 10506 can be divorced from the question of chain banking generally, there are several troublesome defects in the stock ownership provisions of the bill as it stands. First, it is not clear exactly what is meant by a "substantial" beneficial ownership. With several regulatory agencies issuing interpretations in the area, there would be a serious risk of discriminatory administration. In the Bank Holding Company Act of 1956, Congress drew the line at 25 per cent ownership or control of stock in a bank. In the Securities Exchange Act of 1934, Congress determined that 10 per cent ownership of stock in a corporation made the owner a "principal stockholder". Were H. R. 10506 to be passed with a stock provision, it would seem desirable for Congress similarly to prescribe a specific test.

If this vagueness of definition were cured, there would still remain a puzzling anomaly between the bill's general prohibition against beneficial ownership of substantial amounts of stock or shares and the authority granted by paragraph (5) of the proposed section 8A. Under that paragraph the regulatory agencies may permit interlocking service between two or more organizations covered by the bill where more than 50 per cent of the stock in each is owned or controlled by the same persons. The general prohibition seems clearly to forbid common ownership of any "substantial" amount of stock in more than one organization, and an interest of 50 per cent or more is, by definition, "substantial". Authority in the bill to grant exemption applies only to interlocking service as a "director, officer, agent, trustee, or employee". It does not extend to interlocks involving stock ownership. On its face, then, paragraph (5) appears to be a nullity, since the bill would not permit a situation to exist in which the same individuals would own or control 50 per cent or more of the stock in each of two financial organizations.

If it is assumed that paragraph (5) qualifies the general prohibition - a strained interpretation - then the result would be that an individual would be permitted to own either insubstantial interests, or 50 per cent or more, of the stock in each of two or
more financial organizations, or to have a 50 per cent or more stock interest in one organization and an interlocking service with another. However, this would be forbidden where the stock interests owned are substantial but less than 50 per cent. It is difficult to see why common ownership by an individual of substantial minority interests in financial organizations should be thought to be so objectionable that divestment of all but one is required, or the owner is forbidden interlocking relationships with others, yet common ownership of a majority interest in several is permitted, and the majority owner is permitted interlocking relationships with other organizations.

The prohibition against ownership of substantial beneficial stock or share interests would create other, apparently unforeseen, difficulties. Thus, individuals might find themselves inadvertently in violation of the proposed section 8A, without any practical immediate way of curing the violation. For example, suppose that the owner of the majority of the stock in two small banks has died and, by will, left his stock in trust for the benefit of his widow, with a clause in the will providing that the stock shall not be sold by the trustee, but on the widow's death shall pass intact to his children. A difficult court proceeding would be required, at best, to cure the situation. Nor does the bill make any provision for the complex tax problems which would arise upon forced divestment of bank stock by individuals seeking to bring themselves into compliance with the new law. Yet such stock, in many cases, represents a substantial portion of the owner's assets.

Besides the problems already discussed, language of paragraph (5) seems to be circular and, in effect, as it stands, meaningless, unless the word "other" is inserted between "such" and "bank" in line 6 on page two of H. R. 10506.

If it were concluded that the stock ownership area is one which must be brought under the bill, suitable adjustments to take care of the difficulties just mentioned should be considered. However, as indicated previously, the Board questions whether the stock ownership provisions, which involve the whole area of chain banking, ought to be covered in the antitrust laws. Chain banking, in economic fact, is no more than a sub-area of the problem of multi-office banking, a problem which includes branch banking and ownership of banks by corporate holding companies, both of which would continue to be permitted, yet which probably have a similar impact on competition. Moreover, to cover individual stockholdings in banks under the Clayton Act seems patently discriminatory, since no comparable prohibitions are contained in the balance of section 8 applying to other corporations.
The Honorable Emanuel Celler

would seem inevitable that efforts by the Board, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the Federal Savings and Loan Insurance Corporation to coordinate policy and interpretations under the law would be awkward and time-consuming. No matter how painstaking those efforts might be, moreover, some difference of views would be inescapable and discrimination would result. The Board would believe it preferable to place administration of the new section 8A in a single banking agency. The question of interlocking service among banks is one over which the Board has had sole administrative jurisdiction from the beginning, and the present law, of course, applies in situations involving nonmember banks, and even nonmember noninsured banks, where the interlocking service involves also a member bank of the Federal Reserve System or a private bank. However, the Board would not object to placing administrative jurisdiction elsewhere with respect to either banks or savings and loan associations.

The next to the last paragraph of the proposed section 8A states that the five specified agencies "with respect to institutions regulated by them, [shall] enforce compliance with this section and prescribe such rules and regulations, and make such orders or rulings, as may be necessary for that purpose". (Emphasis added) The words "enforce compliance" give rise to a basic difficulty. H. R. 10506 creates a new section of the Clayton Act, namely, section 8A, while the enforcement provisions in section 11 of the Clayton Act (15 U.S.C. 21) refer, among other things, to "section 8". Even if the procedures in section 11 were construed as applicable to the new section 8A, section 11 mentions the Board alone, not the Federal Deposit Insurance Corporation, the Comptroller, the Federal Home Loan Bank Board, or the Federal Savings and Loan Insurance Corporation, and grants the Board authority over only "banks, banking associations, and trust companies". As section 11 now reads, authority over savings and loan associations might be held to fall under the Federal Trade Commission.

The underscored words "regulated by them" in the above-quoted provision of H. R. 10506 create an ambiguity, as the Board has regulatory authority over all banks under section 7 of the Securities Exchange Act of 1934 with respect to margin requirements applicable to loans for the purpose of purchasing or carrying stocks registered on a national securities exchange. There may be other instances of which the Board is not now aware where other agencies have special regulatory authority over organizations not normally subject to their supervision. If Congress wished to retain the division of regulatory authority contemplated by the bill, it might be preferable to describe the financial organizations by groups with reference to the appropriate supervisory agency.
Small local institutions. - The Board objects strongly to the exception in paragraph (6) of the proposed section 8A, which would permit interlocking service where one of the institutions concerned is "a small local" bank, for example, after a finding by the appropriate supervisory agency that the individual concerned resides in the vicinity of the bank's principal office, that the bank has a "particular need" for the services of the individual, and that the bank is "not in competition with" any other financial organization with which the individual is affiliated. The net effect of this provision would be to return to the almost insuperable administrative difficulties of the era before the 1935 amendments to section 8 of the Clayton Act, when the Board was besieged with requests to pass upon literally thousands of applications for individual permits to engage in interlocking service, and to evaluate the competitive aspect of each separate situation. Congress amended section 8 of the Act to eliminate the provision under which these permits were granted in response, in part, to the urgent request of the Board that exceptions believed to be desirable be written explicitly into the statute.

Quite aside from the difficulty of administration, however, it seems most unlikely that the paragraph would have much practical benefit, as the case seems rare, indeed, where a suburban institution of the kind contemplated would not be in competition to some extent - if only for the business of commuters - with the other institution with which the individual was affiliated. If it is believed desirable to retain an exception which would permit interlocking service of this kind, at the discretion of the supervisory agency, the Board would urge that the exception be reworded to read "a small, local bank, banking association, savings bank, trust company, or savings and loan association, where the individual concerned resides in the vicinity of the same city, town, or village where such institution has its principal office". The Board would hasten to point out, however, the tendency which any interlocking service of the kind contemplated might have to facilitate mergers of the organizations concerned.

Federal Reserve Bank directors. - As presently written, H. R. 10506 appears to prohibit the director of a member bank of the Federal Reserve System from serving as a Class A director of a Federal Reserve Bank, although paragraph 10 of section 4 of the Federal Reserve Act seems to contemplate that Class A directors may be officers, directors, or employees of member banks. Section 8 of the Clayton Act permits this service because its prohibition applies only to banks organized under the National Bank Act or under State law, while Federal Reserve Banks, the stock of which is owned by member banks, are organized under the Federal Reserve Act. H. R. 10506 covers banks subject to regulation by the Federal Reserve Board, a classification which includes Federal Reserve Banks. Furthermore, as H. R. 10506
would extend to individual ownership of stock in a member bank, for example, it would appear that this, too, would serve as a basis for disqualification for either a Class A or a Class B director of a Federal Reserve Bank. The application of the bill to these situations would seem to be inadvertent, since it has been the uniform policy of Congress, since section 8 of the Clayton Act was first enacted, to exempt service on the boards of directors of Federal Reserve Banks.

The only exemption which might be used to avoid these problems is that in paragraph (7) of proposed section 8A for a bank "not engaged in a class or classes of business in which such regulated institution is engaged". However, it is doubtful as to whether the exemption would apply in the case of stock ownership. In any event, it would seem preferable that exemption for such cases should be based on a statutory exemption rather than made dependent on administrative action. Accordingly, the Board would strongly recommend an amendment to the bill specifically exempting service with organizations such as the Federal Reserve Banks.

Statutory exceptions preferred. - Reviewing the structure of H. R. 10506 as a whole, the Board questions the wisdom of leaving the exceptions to be put into effect by administrative regulations, instead of having them, as under present law, set forth specifically in the statute itself. It is true that, under present law, the Board does have authority to grant exceptions by regulation for one non-conforming relationship. However, as pointed out in the Board's letter to you of May 24, 1962, the Board, in its Regulation L (12 CFR 212.3), a copy of which is enclosed, has confined itself to a very few areas in exercising this authority. The reason for one of these, the exception for cooperative banks or similar institutions, would be eliminated by the bill. The second, where there is a pending consolidation or merger between the two institutions concerned, has not been used for some years. Another was designed to place private bankers on the same footing as other bankers, and would not seem to be necessary under the scheme of H. R. 10506. Administrative experience has reinforced the Board's conviction, expressed in its letter of June 6, 1935, to the Honorable Carter Glass, then Chairman of the Senate Committee on Banking and Currency, that discretionary authority should not be granted to permit interlocking service in any cases, but that specific exceptions should be set forth in the law.

Edge and "Agreement" corporations. - Paragraphs (3) and (4) of proposed section 8A present certain problems as they stand. Section 6 of the Bank Holding Company Act of 1956, as interpreted by the Board, forbids a banking subsidiary in a bank holding company from owning any stock in certain other subsidiaries, including an Edge corporation organized under section 25(a) of the Federal Reserve Act or an "Agreement" corporation operating under section 25 of that Act.
Paragraph (3) is apparently intended, among other things, to permit directors of holding company banks to serve as directors of an Edge corporation or an "Agreement" corporation in the same bank holding company family. However, paragraph (3) applies only where the bank in question owns stock in the Edge or "Agreement" corporation, a situation forbidden by the Bank Holding Company Act. This difficulty could be remedied by inserting at the end of paragraph (3), after the words "United States Code;" the language "or where such bank, banking association, savings bank, trust company, or savings and loan association is a subsidiary of a bank holding company of which such corporation is also a subsidiary, within the meaning of chapter 17 of title 12 of the United States Code;".

Inadequacy of the language of paragraph (3) of proposed section 8A could be met by substituting "A corporation having an agreement or undertaking with the Board under section 25 of the Federal Reserve Act and a corporation organized under section 25(a) of said Act" for the language of the paragraph prior to the word "Provided". The words "any such corporation" should also be substituted for "such corporation authorized by Chap. 6 of Title 12 of the U. S. Code" at the end of paragraph (3); and, in paragraph (4), in the interest of clarity, the language "issued under sections 25 and 25(a) of the Federal Reserve Act" should be substituted for "of the appropriate Federal regulatory agency".

As indicated at the outset hereof, the Board endorses the objective of H. R. 10506 to extend the prohibition of present law to interlocking service relationships involving all Federally-insured banks and savings and loan associations. However, should the Committee decide to proceed with consideration of H. R. 10506, the Board believes that a good deal of further study and consideration should be given to the difficulties discussed above, and particularly to the question whether, and to what extent, the antitrust laws (rather than the Federal banking laws) shall be expanded to prohibit chain banking. For these reasons the Board does not recommend passage of H. R. 10506 in its present form.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure
June 3, 1964.

The Honorable Charles D. Slay,  
Commissioner of Banking,  
Davenport Building - 5th Floor,  
Capitol Avenue and Ottawa Street,  
Lansing, Michigan. 

Dear Mr. Slay:

There is enclosed a copy of the Competitive Factors Report the Board of Governors submitted to the Comptroller of the Currency in connection with the proposed purchase of assets and assumption of liabilities of The Grand Ledge State Bank and the Loan and Deposit State Bank, both of Grand Ledge Michigan, by Michigan National Bank, Lansing, Michigan.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Enclosure.
TELEGRAM
LEASED WIRE SERVICE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

June 2, 1964.

TARVER -- ATLANTA

KEBJE

A. The First National Bank of Tampa, Tampa, Florida.
B. The Broadway National Bank of Tampa, Tampa, Florida.
   Second National Bank of Tampa, Tampa, Florida.
C. Prior to issuance of permit authorized herein (1) Applicant shall execute and deliver to you, in duplicate, an agreement in form accompanying Board's letter S-964 (F.R.L.S. #7190); (2) stock in the Federal Reserve Bank has been issued to Second National Bank; and (3) your Bank shall have received written advice that Union Security & Investment Co. owns at least 20,000 of the 25,000 outstanding shares of Second National Bank acquired from funds on hand or obtained through an increase of equity capital and not through increased borrowings. STOP. Simultaneously with issuance of permit authorized herein there shall be issued to Union Security & Investment Co. the general voting permit authorized in Board's telegram of this date. STOP. Permit authorized herein may be issued at any time within 120 days from the date of this telegram, subject to the foregoing conditions.

(Signed) Karl E. Bakke

BAKKE

Definition of KEBJE

The Board authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B" at all meetings of shareholders of such bank(s), subject to the condition(s) stated below after the letter "C". The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).
June 2, 1964.

TARVER -- ATLANTA

KEBJE

A. Union Security & Investment Co., Tampa, Florida.

B. The Broadway National Bank of Tampa, Tampa, Florida.

Second National Bank of Tampa, Tampa, Florida.

C. Prior to issuance of permit authorized herein (1) Applicant shall execute and deliver to you, in duplicate, an agreement in form accompanying Board’s letter S-964 (F.R.L.S. #7190); (2) stock in the Federal Reserve Bank has been issued to Second National Bank; and (3) your Bank shall have received written advice that Union Security & Investment Co. owns at least 20,000 of the 25,000 outstanding shares of Second National Bank acquired from funds on hand or obtained through an increase of equity capital and not through increased borrowings.

STOP. Simultaneously with issuance of permit authorized herein there shall be issued to The First National Bank of Tampa the general voting permit authorized in Board’s telegram of this date. STOP. Permit authorized herein may be issued at any time within 120 days from the date of this telegram, subject to the foregoing conditions.

(Signed) Karl E. Bakke

BAKKE

Definition of KEBJE

The Board authorizes the issuance of a general voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter “A”, entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter “B” at all meetings of shareholders of such bank(s), subject to the condition(s) stated below after the letter “C”. The period within which a permit may be issued pursuant to this authorization is limited to thirty days from the date of this telegram unless an extension of time is granted by the Board. Please proceed in accordance with the instructions contained in the Board’s letter of March 10, 1947, (5-964).
Mr. Paul C. Stetzelberger, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio 44101.

Dear Mr. Stetzelberger:

In accordance with the request contained in your letter of May 29, 1964, the Board approves the appointment of David E. Bricker, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Cleveland. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.
Mr. J. E. Denmark, Vice President,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia 30303.

Dear Mr. Denmark:

In accordance with the request contained in your letter of May 29, 1964, the Board approves the appointment of Carleton W. Sturtevant, at present a senior assistant examiner, as an examiner for the Federal Reserve Bank of Atlanta, effective June 8, 1964.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.
June 2, 1964.

DEMING - MINNEAPOLIS

Reurlet May 27, 1964, Board approves appointment of Ervin Eugene Johnson as assistant examiner for Federal Reserve Bank of Minneapolis. Please advise effective date of appointment.

(Signed) Karl E. Bakke

BAKKE