

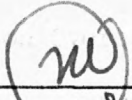
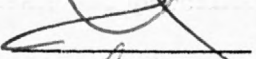
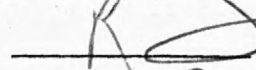
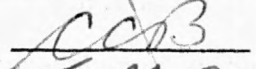


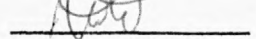
Minutes for June 8, 1964.

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	<u></u>
Gov. Mills	<u></u>
Gov. Robertson	<u></u>
Gov. Balderston	<u></u>
Gov. Shepardson	<u></u>
Gov. Mitchell	<u></u>
Gov. Daane	<u></u>

Minutes of the Board of Governors of the Federal Reserve System on Monday, June 8, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Mills, Acting Chairman  
Mr. Shepardson  
Mr. Mitchell  
Mr. Daane

Mr. Sherman, Secretary  
Miss Carmichael, Assistant Secretary  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Brill, Director, Division of Research and Statistics  
Mr. Solomon, Director, Division of Examinations  
Mr. Shay, Assistant General Counsel  
Mr. Goodman, Assistant Director, Division of Examinations  
Mr. Leavitt, Assistant Director, Division of Examinations  
Mr. Eckert, Chief, Banking Section, Division of Research and Statistics  
Mr. McClintock, Supervisory Review Examiner, Division of Examinations

Boston Overseas Financial Corporation (Item No. 1). Unanimous approval was given to a letter to Boston Overseas Financial Corporation, Boston, Massachusetts, granting consent to purchase shares of Banco Europeo de Negocios, Madrid, Spain. A copy is attached as Item No. 1.

During discussion of the item, Mr. Goodman mentioned that the request of Boston Overseas to purchase shares of Banco Europeo de Negocios pointed up the importance of the valuation of shares of foreign corporations on the books of section 25 and 25(a) corporations. He noted that this subject would soon be coming before the Board for consideration in another connection.

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Payment of dividends. There had been distributed a memorandum from the Division of Examinations dated June 1, 1964, with reference to dividends declared by First State Bank, Chinook, Montana, in contravention of the provisions of paragraph 6, section 9, of the Federal Reserve Act and section 5199(b), U. S. Revised Statutes, and a request by that bank for permission to declare an additional dividend of \$10,000. The Federal Reserve Bank of Minneapolis recommended that the Board interpose no objection to the dividends that had been paid on January 18, 1963, and February 20, 1964, and disapprove the proposed additional dividend.

The Board's Division of Examinations recommended that the Board interpose no objection to the two dividends that had already been paid and approve the proposed dividend. A draft of letter taking this position was attached to the memorandum.

In the most recent examination of the Chinook bank it had been determined that the bank had paid inadvertently cash dividends of \$15,000 on January 18, 1963, and \$30,000 on February 20, 1964, without receiving prior approval from the Board. It appeared that the Reserve Bank's adverse recommendation with respect to an additional dividend of \$10,000 was based on (1) applicant's loan policies that had been somewhat liberal in the past and (2) the generous dividends and service fees that Bancorporation of Montana (the holding company owning a controlling interest in the bank) received from the applicant. The Division of Examinations recognized that the bank's loan policy was somewhat

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liberal but pointed out that the loss record in recent years was favorable. The Division agreed with the Reserve Bank that the 1964 dividends (paid and proposed) and the holding company service fees were generous in relation to the value of services performed by the holding company. However, the bank's capital position, which had been satisfactory for the last five years, would still be satisfactory after payment of the proposed \$10,000 dividend.

Following comments by Mr. Solomon based on information contained in the memorandum, Governor Daane inquired whether there was a penalty for the violations that had occurred. He observed that he was somewhat bothered by the language in the draft letter, which stated that prior approval could not be given for dividends that had already been declared and paid.

Mr. Solomon responded that, as in the case of certain other regulations, there was no specific penalty attached to violations of this kind. The ultimate penalty would, of course, be the removal of a bank officer involved in the violations or expulsion of the bank from membership in the System.

Governor Mills commented that the letter as drafted did point to the fact that the bank was prevented from paying further dividends without applying to the Board for permission. He noted that violations of this type that had come to the attention of examiners had almost always been unintentional rather than deliberate.

Governor Shepardson questioned whether the Board should approve the payment of an additional dividend at this time. The bank had already

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paid a \$30,000 dividend earlier this year and now it was requesting permission to pay an additional \$10,000, making a total of \$40,000 as against \$15,000 paid in dividends during 1963. This situation made him wonder what plans the bank had for the future.

Mr. Solomon replied that the Board's staff had no definite information regarding future plans of the bank. However, by any standards this particular bank was heavily capitalized and it might be that through the payment of dividends the bank had in mind bringing its capital down to a more usual level.

In the course of the discussion, it was brought out that the recommendation of the Federal Reserve Bank of Minneapolis that the Board disapprove the request of First State Bank to declare an additional dividend appeared to be based on a general attitude on the part of the Reserve Bank toward Bancorporation of Montana. It was noted that questions regarding the holding company's management and financial condition had been raised previously during the Board's consideration of earlier applications involving this company.

Governor Mitchell expressed the view that the Chinook bank should not be regarded as just an individual bank but as part of a holding company, the operations of which had raised some questions. He had an idea that the payment of dividends by the bank might well be part of an intra-holding company group transaction about which the Board should have more information.

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Governor Mills said that he shared some of the same concern expressed by Governor Mitchell. There was a question as to whether this transaction should be looked at from the standpoint of the Chinook bank as an individual bank or as a unit of the bank holding company. If the holding company was not doing well, it would seem that a case could be made for prohibiting the payment of this additional dividend by the Chinook bank. If the dividend were not declared, the bank would be strengthened and its funds would not be diverted to other subsidiary banks that were members of the same holding company system.

At the conclusion of the discussion it was understood that the matter would be remanded to the staff for further study.

During the foregoing discussion Mr. Noyes, Adviser to the Board, entered the room, and at its conclusion Mr. McClintock withdrew from the meeting.

Request of Professor Dewald for data. There had been distributed a memorandum from Mr. Brill dated June 4, 1964, regarding a request of Professor William Dewald, formerly a member of the Research Department at the Federal Reserve Bank of Minneapolis and now at the University of Chicago, for certain daily data on bank reserves and factors affecting them. The data were desired for research into "the possibilities of controlling the weekly average of member bank legal reserve balances." Professor Dewald indicated that he had made application to the House Banking and Currency Committee for funds to support his research project.

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In 1963, the Board had approved a request from Mr. Albert Cox of the American Bankers Association for similar data, although in somewhat greater detail, covering the period April 1-September 30, 1961. Those data were used in connection with the Association's study of a proposal for lengthening and staggering reserve settlement periods of member banks. Professor Dewald had stated that data for the six-month period that had been furnished to the American Bankers Association would be satisfactory for his use. He intimated, however, that at a later date he might desire data for a longer period if his request for funds were approved by the House Banking and Currency Committee.

The requested data, while not hitherto published except for Wednesday totals and statement week averages, contained no sensitive information and a photostat of the tabulation supplied the American Bankers Association was readily available. Accordingly, it was recommended that the request be approved.

After a brief discussion it was agreed unanimously to furnish Professor Dewald with the requested information.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today  
approved on behalf of the Board:

Letter to the Federal Reserve Bank of Atlanta (attached Item No. 2) approving the designation of T. E. Davis, Jr., and Larry J. Milam as special assistant examiners.

Memoranda from appropriate individuals concerned recommending the following actions relating to the Board's staff:

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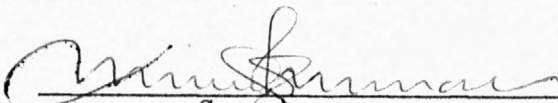
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Salary adjustment

Doreen Dippre, Secretary, Office of the Secretary, from \$9,250 to \$7,550 per annum, effective June 8, 1964, pursuant to the understanding at the time of Miss Dippre's transfer from the Board Members' Offices to the Secretary's Office.

Acceptance of resignation

David S. Staiger, Economist, Division of Research and Statistics, effective at the close of business June 13, 1964.

  
Secretary



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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1  
6/8/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 8, 1964.



Boston Overseas Financial Corporation,  
67 Milk Street,  
Boston 6, Massachusetts.

Gentlemen:

In accordance with the request contained in your letter of May 14, 1964, transmitted through the Federal Reserve Bank of Boston, and on the basis of information furnished, the Board of Governors grants consent for your Corporation to purchase and hold approximately 10 per cent of the shares of Banco Europeo de Negocios, Madrid, Spain, at a cost not to exceed approximately US\$350,000, provided such stock is acquired within one year from the date of this letter.

The Board also approves the purchase and holding of shares of Banco Europeo de Negocios within the terms of the above consent in excess of 10 per cent of your Corporation's capital and surplus.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2  
6/8/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

June 8, 1964



Mr. J. E. Denmark, Vice President,  
Federal Reserve Bank of Atlanta,  
Atlanta, Georgia. 30303.

Dear Mr. Denmark:

In accordance with the request contained in Mr. Sheffer's letter of June 3, 1964, the Board approves the designation of T. E. Davis, Jr., and Larry J. Milam as special assistant examiners for the Federal Reserve Bank of Atlanta for the purpose of participating in examinations of State member banks.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.