Minutes for July 31, 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 Friday, July 31, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson
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. Molony, Assistant to the Board
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. Holland, Associate Director, Division of Research and Statistics
Mr. Koch, Associate Director, Division of Research and Statistics
Mr. Partee, Adviser, Division of Research and Statistics
Mr. Furth, Adviser, Division of International Finance
Mr. Axilrod, Chief, Government Finance Section, Division of Research and Statistics
Mr. Keir, Chief, Capital Markets Section, Division of Research and Statistics
Mr. Dahl, Chief, Special Studies and Operations Section, Division of International Finance
Mr. Baker, Economist, Division of International Finance

Money market review. Mr. Axilrod reviewed developments in the Government securities market, Mr. Koch discussed monetary and credit developments, and Mr. Baker commented on foreign exchange market developments. Mr. Koch included in his comments certain observations concerning
the discussion at the most recent Open Market Committee meeting relating to the form of the Committee's current economic policy directive.

Material distributed and referred to during the course of the money market review included a summary of monetary developments in the four weeks ended July 29, 1964, a chart on the growth in demand deposits since January 1963, data affording perspective on money market developments during the current calendar year, and data on recent changes in selected monetary indicators.

Members of the staff who had been present, other than Messrs. Sherman, Kenyon, Young, Noyes, Molony, Fauver, Hackley, and Solomon, then withdrew and the following entered the room:

Mr. Cardon, Legislative Counsel
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Young, Senior Attorney, Legal Division
Mr. Poundstone, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of Chicago, Kansas City, and San Francisco on July 30, 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.

Marine Midland International Corporation (Item No. 1). As recommended in a distributed memorandum from the Division of Examinations dated July 27, 1964, unanimous approval was given to a letter to Marine
Midland International Corporation, New York, New York, approving an amendment to the Corporation's Articles of Association. A copy of the letter is attached as Item No. 1.

Membership application (Item No. 2). There had been circulated a memorandum from the Division of Examinations dated July 15, 1964, and other pertinent papers relating to the application made on behalf of Bank of Minneapolis and Trust Company, Minneapolis, Minnesota, a bank in process of organization, for membership in the Federal Reserve System. The recommendations of the Division and of the Federal Reserve Bank of Minneapolis were favorable.

In reply to a request by Governor Mills for evaluation of the proposed management, Mr. Leavitt said this aspect of the application had been discussed at some length within the Division of Examinations. He had ascertained that the Reserve Bank did not feel that management was the main problem in this case or the related holding company case. (An application had been received by the Board from Bancorporation of Minnesota, Inc., Rochester, Minnesota, for approval of action to become a bank holding company through the acquisition of a majority of the shares of the applicant bank and two other banks, located in Rochester and Lake City, Minnesota; control of all of these institutions was in the hands of Mr. Thomas Scallen and his corporate interests. The Reserve Bank recommended denial of the holding company application, chiefly because of the self-dealing aspects involved.)
Mr. Leavitt said that the Reserve Bank would be willing to recommend favorably on the holding company application were it not for the self-dealing aspects. Also, despite certain reservations expressed by the District Acting Supervising Examiner, the Federal Deposit Insurance Corporation’s Washington staff saw no apparent objections to granting deposit insurance to the bank now being organized.

Mr. Leavitt went on to say that although he had some reservations about the bank’s management, they were not serious enough to cause him to feel that denial of the membership application would be warranted. In reply to a question as to whether certain corrections should be required as a condition of membership, Mr. Leavitt said the problem really went more to ownership than active management; the proposed managing officer was regarded as satisfactory. Mr. Leavitt explained that there would be nine directors, of whom one would be the managing officer. Other directors were representative of the local business community.

If the holding company application was approved by the Board, most of the bank’s stock would be sold to the holding company. According to the application, no profit to the directors would be involved, but there might be some doubt on this score.

Following further discussion, the membership application was approved unanimously. A copy of the letter sent to the Organization Committee, Bank of Minneapolis and Trust Company, pursuant to this decision is attached as Item No. 2.
Mr. Hexter, Assistant General Counsel, entered the room at this point.

Branch application (Item No. 3). In a telegram dated July 30, 1964, the Federal Reserve Bank of San Francisco advised that Wells Fargo Bank, San Francisco, California, would file an application today for permission to establish a de novo branch in Covelo, California, on the same basis as the Board's approval given by telegram dated February 24, 1964, which approval was rescinded by telegram dated March 3, 1964, when it was not used. The Reserve Bank stated that it recommended approval of the current application, as did the State Superintendent of Banks.

Mr. Solomon explained that according to the information available to Vice President Galvin of the San Francisco Reserve Bank, the situation at the Frontier Bank in Covelo (a nonmember insured bank) had again worsened, with the result that the Federal Deposit Insurance Corporation was planning to close the bank. To provide continued banking services to the community, the Corporation and the State authorities were planning to put into effect the program envisaged last February but held in abeyance when it appeared that the Frontier Bank's difficulties might be resolved.

In response to questions, Mr. Solomon also described his understanding of reasons why the Frontier Bank's condition had again deteriorated.
The application of Wells Fargo Bank was then approved unanimously. A copy of the telegram sent to the Federal Reserve Bank of San Francisco reflecting this action is attached as Item No. 3.

Draft legislation to provide for notice of change in control of management of insured banks (Item No. 4). On July 23, 1964, the Board was asked by the Bureau of the Budget for comments on a draft bill proposed by the Federal Deposit Insurance Corporation that would provide for notice of change in control of management of insured banks. Since that time, two revisions of the draft bill had been transmitted by the Bureau.

Such legislation was being pushed strongly by Chairman Barr of the Federal Deposit Insurance Corporation in light of the recent rash of closings of small banks, since the difficulties in most, if not all, of those cases were alleged to be associated with changes in ownership. The Budget Bureau had inquired whether it could have a report from the Board today, with a view to clearing draft legislation for transmittal to the appropriate Congressional committees as quickly as possible. Chairman Barr also had called Governor Balderston on the matter.

Mr. Young (Legal) explained that the latest revision of the proposed legislation was received only yesterday. The current draft bill would require all insured banks to make reports to the appropriate Federal bank supervisory agency concerning any change in stock ownership that might result in a change of control of a bank. It would also require
a report of any bank loan secured by 25 per cent or more of the voting stock of an insured bank, along with a report of any change in the chief executive officer of a bank or in the directors of a bank. All such reports must be made within 24 hours of the time that the reported incidents came to the knowledge of the bank's chief executive officer. Whenever the Board received a report from a State member bank, it would have to furnish a copy to the Federal Deposit Insurance Corporation promptly. Whenever the Comptroller of the Currency received a report, he would have to furnish copies to the Board and the Corporation.

In reply to a question, Mr. Young said the draft legislation contained no sanctions for failure to make the designated reports, although the original draft had provided a criminal penalty. It was understood that the Department of Justice had felt that successful prosecution would be difficult.

Governor Mills expressed the view that some kind of legislation in this area was needed. He observed, however, that the current draft legislation provided for nothing more than the giving of notice, leaving a question as to what the bank supervisory agencies might be expected to do with the information when it was received.

Mr. Hexter raised the question whether the situation was such that the Board felt obliged to submit comments to the Budget Bureau without the benefit of thorough staff analysis of the subject, and Governor Mills noted that the Board's judgment might be challenged if it endorsed draft legislation that was subsequently found to be defective.
Governor Mitchell commented on the laudable objective of the proposed legislation. He felt that some action needed to be taken and that the Board might be subject to criticism if it registered objection on technical grounds. Governor Daane agreed, indicating that the Board should not create an impression of procrastinating unnecessarily.

Governor Robertson expressed the view that legislation along the lines drafted would stand a strong chance of being passed at this session of the Congress. There were two facets of the draft legislation to which he would not subscribe: the requirement for reporting of changes in directors, and the absence of sanctions. But the underlying purpose of the proposed legislation was good. He suggested that the Board support the proposed legislation in principle and say that it would like to reserve the right to submit suggestions for amendments at the earliest possible time.

Governors Mitchell and Daane supported such an approach, but Governor Mills expressed the view that any suggested amendments should be submitted before a bill was introduced in the Congress.

Mr. Hackley indicated that he had some doubt whether the proposed legislation would accomplish any substantial public purpose. He was not sure what such legislation would accomplish except to impose additional burdens on all insured banks and on the Federal bank supervisory agencies, particularly since no sanctions were provided. He was inclined to agree with Mr. Hexter that it would be desirable to consider the merits of the
draft legislation more carefully before submitting views on it. The Comptroller of the Currency, he noted, had expressed strong opposition on the ground that no true emergency calling for hasty legislative action existed at the present time. Also, the Comptroller reported that bankers were concerned about the implications of the proposal from the standpoint of the soundness of the banking system generally.

Mr. Solomon agreed with Mr. Hackley that there was considerable question as to whether the kind of legislative action under consideration would do much good. In the Covelo, California, case, for example, the main problems appeared to have originated with the previous management.

Governor Robertson concurred that the envisaged legislation was not a cure-all, but he felt that information such as called for by the draft bill was information the supervisory agencies ought to have. He thought no one could object validly to a requirement that such information be furnished.

After comments by Mr. Cardon on the favorable prospect for passage of legislation such as proposed, Governor Balderston inquired as to the sentiment of the Board members toward reporting to the Budget Bureau that the Board endorsed the general objective of the proposed legislation but had some reservations as to the details of the draft bill.

Governor Mills replied that he would prefer to defer a report pending further staff analysis. He could not reach a reasoned judgment in the present circumstances, but his offhand reaction was similar to that of Messrs. Hackley and Hexter.
Governor Mitchell suggested that a majority of the Board appeared to favor the basic objective of the proposed legislation without any question, although a need was felt for analysis of the technical features of the draft bill. He proposed a report to the Budget Bureau along such lines.

Governor Shepardson concurred, stating that he saw a need and justification for legislation in this area. He commented on the steps that were taken to secure full information on the organizers and management of a proposed new bank. The question whether the draft bill was adequate to meet the intended objective might be a matter of some debate. But he felt that the Board should express its support of the fundamental principle involved. It would be desirable if any suggested amendments could be submitted before a bill was introduced, but one purpose of Congressional hearings was to develop points of view held by interested parties and if necessary it would appear that amendments could properly be proposed at such time.

There followed further comments by members of the Board and the staff on the purposes that it was thought might be accomplished by having available the information required to be provided by the proposed legislation, including information on changes in directors.

Governor Robertson noted that the Comptroller of the Currency maintained that the same reporting results could be achieved by regulation as through legislation. In his (Governor Robertson's) view the
legislative course was preferable. If so, the object was to propose the kind of legislation that would do the job. He suggested that the Board express agreement with the objective of obtaining such information as was necessary, with sanctions for failure of compliance.

At the instance of Mr. Solomon, there ensued discussion of the question whether any undesirable implications from a supervisory standpoint were involved in the requirement that copies of all reports rendered by national and State member banks be forwarded by the agencies receiving them to the Federal Deposit Insurance Corporation. No conclusions were reached, and it was understood that the matter would be given further thought by the staff.

Thereupon, Governor Mills' reservations being noted, approval was given to a letter to the Bureau of the Budget in the form attached as Item No. 4.

The meeting then adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from the Division of Research and Statistics, Governor Shepardson today approved on behalf of the Board increases in the basic annual salaries of the following persons in that Division:

Edward R. Fry, Economist, from $10,640 to $11,725 per annum, effective August 2, 1964.
John H. Wood, Economist, from $10,640 to $11,725 per annum, effective August 2, 1964.
Marine Midland International Corporation,
120 Broadway,

Gentlemen:

Reference is made to your letter dated July 21, 1964 enclosing a Consent on behalf of Marine Midland Corporation, sole shareholder of your Corporation, consenting to the amendment of the Articles of Association of your Corporation to increase the capital stock to $5,000,000, consisting of 50,000 shares of the par value of $100 each.

In accordance with the request, and pursuant to the provisions of Section 211.3(a) of Regulation K, as revised effective September 1, 1963, the Board of Governors approves the amendment to Article SEVENTH of your Articles of Association.

Please advise the Board of Governors, through the Federal Reserve Bank of New York, when the additional capital has been paid in.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.
July 31, 1964

Organization Committee,
Bank of Minneapolis and Trust Company,
Minneapolis, Minnesota.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the application made on behalf of Bank of Minneapolis and Trust Company, Minneapolis, Minnesota, for stock in the Federal Reserve Bank of Minneapolis, effective if and when the bank opens for business under appropriate State authorization, subject to the numbered conditions hereinafter set forth.

1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.

2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.

3. At the time of admission to membership, such bank shall have paid-in and unimpaired capital stock of not less than $500,000, and other capital funds of not less than $700,000.

In connection with the foregoing conditions of membership, particular attention is called to the provisions of the Board's Regulation H, regarding membership of State banking institutions in the Federal Reserve System, with especial reference to Section 208.7 thereof. A copy of the regulation is enclosed.

It is noted that under its charter the bank may exercise trust powers and it is understood that the bank intends to accept fiduciary business upon admission to membership. It will be expected, of course, that when such business is undertaken, your bank will be equipped to handle it in conformity with recognized principles of sound fiduciary administration.
Organization Committee

If at any time a change in or amendment to the bank's charter is made, the bank should advise the Federal Reserve Bank, furnishing copies of any documents involved, in order that it may be determined whether such change affects in any way the bank's status as a member of the Federal Reserve System.

Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by the board of directors after the bank's charter has been issued and a certified copy of such resolution should be transmitted to the Federal Reserve Bank. Arrangements will thereupon be made to accept payment for an appropriate amount of Federal Reserve Bank stock, to accept the deposit of the required reserve balance, and to issue the appropriate amount of Federal Reserve Bank stock to the bank.

The time within which admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to six months from the date of this letter, unless the bank applies to the Board and obtains an extension of time. When the Board is advised that all of the requirements have been complied with and that the appropriate amount of Federal Reserve Bank stock has been issued to the bank, the Board will forward to the bank a formal certificate of membership in the Federal Reserve System.

The Board of Governors sincerely hopes that you will find membership in the System beneficial and your relations with the Reserve Bank pleasant. The officers of the Federal Reserve Bank will be glad to assist you in establishing your relationships with the Federal Reserve System and at any time to discuss with representatives of your bank means for making the services of the System most useful to you.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Enclosure.
July 31, 1964.

GALVIN - SAN FRANCISCO

Reurtel July 30, 1964, Board has approved application of Wells Fargo Bank, San Francisco, California, to establish de novo branch at Covelo, California, such approval being conditioned upon prior or simultaneous discontinuance of the existing banking facilities in Covelo and upon establishment of the branch within thirty days after the date of this telegram.

(Signed) Merritt Sherman

SHERMAN
Mr. Phillip S. Hughes,
Assistant Director for
Legislative Reference,
Bureau of the Budget,
Washington, D. C. 20503.

Dear Mr. Hughes:

This is in response to your communication of July 23, 1964, requesting the Board's views on draft legislation proposed by the Federal Deposit Insurance Corporation "To provide for notice of change in control of management in insured banks, and for other purposes." Since receipt of your letter, as you know, there have been two revisions of the draft bill, the last of which was received here yesterday.

While the Board has not had sufficient time to make a comprehensive study of all the provisions of the latest revised draft, you are advised that it generally approves the objective of the bill. The Board does, however, have some reservations regarding the failure to provide some form of sanction to insure compliance, and it questions the desirability of extending the reporting requirements to include changes in directors. After the Board has had an opportunity to consider more carefully the specific provisions of the bill, it may wish to present further views.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.