

Minutes for August 12, 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

mm

Gov. Mills

RM

Gov. Robertson

CRB

Gov. Balderston

CS

Gov. Shepardson

SM

Gov. Mitchell

DM

Gov. Daane

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, August 12, 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. Kenyon, Assistant Secretary  
Mr. Bakke, Assistant Secretary  
Mr. Noyes, Adviser to the Board  
Mr. Cardon, Legislative Counsel  
Mr. Hackley, General Counsel  
Mr. Farrell, Director, Division of Bank Operations  
Mr. Solomon, Director, Division of Examinations  
Mr. O'Connell, Assistant General Counsel  
Mr. Holland, Associate Director, Division of Research and Statistics  
Mr. Partee, Adviser, Division of Research and Statistics  
Mr. Dembitz, Associate Adviser, Division of Research and Statistics  
Mr. Furth, Adviser, Division of International Finance  
Mr. Conkling, Assistant Director, Division of Bank Operations  
Mr. Daniels, Assistant Director, Division of Bank Operations  
Mr. Goodman, Assistant Director, Division of Examinations  
Mr. Leavitt, Assistant Director, Division of Examinations  
Mrs. Semia, Technical Assistant, Office of the Secretary  
Mr. Forrestal, Attorney, Legal Division  
Mr. Lyon, Review Examiner, Division of Examinations

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

- |   | <u>Item No.</u> |
|---|-----------------|
| Letter to Metropolitan Investments Corporation, Chicago, Illinois, granting a determination exempting it from all holding company affiliate requirements except those in section 23A of the Federal Reserve Act.      | 1               |
| Letter to Chase Manhattan Overseas Banking Corporation, New York, New York, granting consent to the purchase of all of the shares of a nominee corporation to be organized under the laws of the Colony of Hong Kong. | 2               |
| Telegram to the Federal Reserve Bank of New York authorizing the opening and maintenance of an account in the name of Banque Nationale du Congo.  | 3               |

Application of Barnett National Securities Corporation

(Items 4 and 5). There had been distributed drafts of an order and statement that would reflect the Board's action on July 23, 1964, approving the application of Barnett National Securities Corporation, Jacksonville, Florida, for permission to acquire 80 per cent or more of the voting stock of The San Jose Barnett Bank, Jacksonville, Florida, a proposed new bank.

After discussion, the issuance of the order and statement was authorized, subject to an editorial change in the language of the statement. Copies of the documents, as issued, are attached as Items 4 and 5.

Messrs. Furth, Forrestal, and Lyon then withdrew from the meeting and Mr. Molony, Assistant to the Board, entered the room.

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Graduated reserve requirements. On March 26, 1964, the Board considered a memorandum dated March 16 in which Governor Balderston suggested submitting to Congress proposed legislation on reserve requirements. He had in mind the recommendations of the President's Committee on Financial Institutions in its April 1963 report, which had contemplated the establishment of a graduated system of reserve requirements to extend to all commercial banks. The staff was requested to prepare a memorandum pointing up the particular questions on which it would need further guidance from the Board in order to draft a bill. There were then distributed two memoranda dated April 21, 1964: one, from Messrs. Brill, Director, Division of Research and Statistics, and Farrell, Director, Division of Bank Operations, posed 11 questions as to which guidance was needed; the other, from Mr. Dembitz, reviewed the background of the proposal for a graduated system of requirements and analyzed the effects that such a system would have. An additional memorandum from Mr. Farrell dated April 23, 1964, containing certain additional observations also had been distributed.

At the beginning of today's discussion, Chairman Martin commented that the purpose of the discussion was to give guidance to the Legal Division in drafting possible legislation for the Board's consideration. It was not the intent to reach a final decision at this time on whether the Board actually would recommend legislation.

Mr. Dembitz then outlined, at the Board's request, the questions submitted in the memorandum from Messrs. Brill and Farrell. The tenor

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of the ensuing discussion is indicated in the following paragraphs, which are numbered to correspond to the questions presented in the memorandum.

1. The memorandum suggested that reserve requirements apply to any commercial bank, which might be defined to include any person, corporation, etc., that engaged to any extent in the business of receiving deposits subject to check. It was noted that in the deliberations of the Committee on Financial Institutions the then Chairman of the Federal Deposit Insurance Corporation had taken the position that, since all commercial banks create money, reserve requirements should apply to non-insured as well as insured banks, pointing out that failure to include them would attach a burden to deposit insurance and might encourage banks to abandon it. However, the memorandum brought out that uninsured banks are not examined or supervised by any Federal Government agency; application of reserve requirements to them at the Federal level would give rise to administrative and enforcement problems.

Governor Mills observed that the Legal Division, in a memorandum distributed under date of August 10, 1964, had expressed the opinion that the Board had authority under present law to establish graduated reserve requirements for member banks. If that was possible, it seemed to him the better course; legislation such as that contemplated for proposal would be highly controversial.

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Governor Mitchell commented that even though the Board might have authority to establish a graduated system of reserve requirements for member banks, the step would be such a departure from what had been done in the past as to be a sensitive matter. This was an area in which he believed that the Congress should have an opportunity to assert itself. He favored going through the memorandum from Messrs. Brill and Farrell to dispose of the issues raised, with a view to considering whether to recommend a bill to Congress.

Governor Daane expressed agreement with Governor Mitchell's view. While serving with the Treasury, he had participated at staff level in the work of the Committee on Financial Institutions. In his recollection the Committee had regarded graduated reserve requirements as a transitional device looking toward the end result of uniform reserve requirements; a large segment of the Committee, at least, had had reservations regarding the recommendation for graduated requirements unless they were regarded as transitional. If graduated requirements were expected to be permanent, he believed there should be flexibility as to amount classifications of deposits for purposes of requiring different reserve percentages; especially, it would seem to him desirable to set the highest cut-off at a level that would segregate the money market banks. Also, even if it was thought that the Board had authority under present law to establish graduated reserve requirements, he did not believe that the principle of such a system could be divorced from the broader question as to what banks should be covered.

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Governor Balderston commented on problems that had arisen regarding classification of reserve cities and administrative difficulties attendant upon the structure of reserve requirements specified in present law. It seemed to him that it was desirable to face immediately the task of presenting to the Congress a package of constructive legislative proposals. Even though it might take a long time for enactment of such proposals, he was anxious to see the Board put forward a package of legislation that it felt would be beneficial to the public interest, and he believed that the package should include a proposal on reserve requirements. As to coverage, it seemed to him that the same reserve requirements should be imposed on nonmember insured banks as on member banks, so as to remove an inducement to withdrawals from System membership.

Governor Shepardson said that he felt it was important to cover nonmember banks, not only because of the prospective loss of small member banks if nonmembers were not subject to the same reserve requirements but also because of competitive considerations. If reserve requirements were essential to the control of the money and credit system, there would appear to be little justification for not imposing them on every bank. However, he did have some question as to whether covering noninsured banks would not present more administrative problems than advantages. It would be difficult to find a mechanism for policing those banks. Even if they were not covered, he doubted that many banks would withdraw from

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deposit insurance, which had come to have an importance outweighing competitive advantages banks might gain if they were not subjected to reserve requirements at the Federal level. With this possible exception, though, all banks should be subject to the same system of reserve requirements. Much support would be lost, he thought, if graduated requirements were applied to member banks first and an attempt was made later to extend the requirements to nonmember banks.

Chairman Martin indicated a view that the reasoning in favor of exclusion of noninsured banks was fairly persuasive; there seemed to be rather good reasons for omitting them on practical grounds.

After further discussion, during which Governor Balderston pointed to the need of support from the Federal Deposit Insurance Corporation for any legislation to be proposed, Chairman Martin suggested that perhaps the best way to proceed would be to determine first what the Board regarded as the best provisions in any legislation to be proposed.

Governor Daane said he started with the premise that all banks should be covered and that reserve requirements should be uniform. For practical reasons, however, he agreed with Governor Shepardson's analysis. In pursuit of the thought mentioned by Chairman Martin that any bill to be proposed should be drafted according to principle rather than expedience, Governor Daane suggested that an important question of principle was involved, namely, compulsory System membership. The Committee on Financial Institutions had recommended continuance of voluntary membership



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for State-chartered banks, but compulsory membership would be one means of achieving a general application of reserve requirements.

Governor Mills observed that as a practical matter it was necessary to submit a bill that had some chance of acceptance, even though it might not encompass all features that would be considered ideal. If the Federal Reserve were to sponsor a bill providing for compulsory membership, both small banks and correspondent banks would no doubt protest vigorously. He could not see any likelihood that such a measure would be enacted except in an emergency, and even then only if the proposal originated with some source outside the Federal Reserve.

Governor Mills added that if there were uniform reserve requirements for all classes of banks, and if discount privileges were extended to nonmembers as a quid pro quo, this might encourage banks to withdraw from membership and go off the par list. In short, the proposals being discussed could lead to various complications.

Chairman Martin agreed that problems might arise. He suggested, however, that it might be desirable to arrive at a draft bill that the Board thought embodied the right principles, and one that would arouse public awareness of the pros and cons. He believed that in the past there had been too many compromises of principle.

Governor Daane remarked that a similar line of thought had prompted him to raise the question of compulsory membership. It would be well to consider whether to go straight to that point or whether to

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advocate only an extension of reserve requirements to nonmember banks, which System critics would say was merely subterfuge.

Governor Mitchell said that, while he concurred with the need for strong advocacy of right principles, he doubted whether compulsory System membership was a matter of great concern. Member banks at present had about 85 per cent of total deposits; while it would be desirable to have a greater percentage of member banks, he would not attach public policy importance to reaching 100 per cent. As he saw it, if some sort of arrangement for similar reserve requirements could be achieved for all insured banks, public policy purposes would be met. Then, if Federal Reserve discounting facilities could be broadened, the advantages of System membership might become more obvious.

Governor Balderston indicated that he shared this view. The moment the nonpar question was brought into the picture--which compulsory membership in the System would involve--the whole package of legislative proposals would probably be defeated. In the past, the nonpar question had contributed to the defeat of worthwhile measures.

Governor Daane then stated that he would be willing to limit the legislative proposal to the scope of the recommendations of the Committee on Financial Institutions, although those recommendations represented a compromise. He had merely thought that the question of compulsory membership should be considered specifically rather than ignored.

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Mr. Hackley expressed the understanding that it was the sense of the Board that the initial draft legislation should be limited to insured banks, and no exception was indicated to that understanding. As to the question of nonpar banks, Mr. Hackley continued, legislation along the lines being discussed might represent some element of progress in that nonmember insured banks would be required to maintain reserves with the Federal Reserve Banks, but would not be able to use those balances actively unless they cleared checks through the Federal Reserve. Thus, some nonpar banks might be induced to go on the par list.

Governor Shepardson asked if the nonpar question had not entered into previous discussion of the possible content of a legislative package. Response was made that the subject was inherent in a possible proposal, which had been among those previously considered by the Board, to seek legislative definition as to whether or not absorption of exchange charges constituted payment of interest on deposits. Further comments indicated a general view that the nonpar question would best be handled separately from draft legislation on reserve requirements.

Governor Shepardson then expressed agreement with remarks that had been made as to the necessity of facing up to principles on which a stand must be taken. As he saw it, if the question of compulsory membership was injected into draft legislation, greater weight would be added to the case for eventual centralization of Federal bank supervision. The Board in effect would be saying that supervision over State banks should

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reside with the Federal Reserve. He questioned whether that issue should be drawn into a reserve requirement proposal.

2. The second issue raised for the Board's consideration in the memorandum of April 21, 1964, from Messrs. Brill and Farrell was what should be recommended in any proposed legislation as to the ranges within which the Board would have power to set reserve requirements. The discussions in the Committee on Financial Institutions seemed to lead to suggestion of the following ranges: that the law should direct the Board to set a requirement, on the first \$5 million of a bank's net demand deposits, between limits of 5 and 9 per cent; on the next \$95 million, between 8 and 20 per cent; on the excess over \$100 million, between 10 and 22 per cent; and on time and savings deposits, between 3 and 6 per cent. The memorandum suggested that it might be desirable also to include the percentages that were contemplated as the initial requirements. The ranges of percentage requirements (5-9, 8-20, and 10-22) for the three strata of demand deposits had been the subject of considerable negotiation during the Committee's discussions. In particular, it had been agreed that the percentages for the two upper deposit strata (\$5 million to \$100 million, and over \$100 million) should be largely overlapping, but that there should be assurance that the requirement on deposits under \$5 million would remain under 10 per cent. However, the Committee's published report did not include any figures on the proposed ranges. It merely said: "By way of illustration, banks, at least initially,

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might be required to keep a 7-percent reserve requirement against the first \$5 million of net demand deposits; a 12-percent requirement (the present country bank level) against the next \$95 million, and a 16-1/2-percent requirement (the present city bank level) against net demand deposits above \$100 million." These latter figures, if included in the draft law, would serve to tie it more clearly to the report of the Committee and to the present requirements, even though the figures would merely be given as a standard from which the Board could depart.

Governor Daane stated that during the Committee's deliberations question had been raised repeatedly whether there was any real rationale in the \$100 million cut-off, or whether it should be moved higher. He did not have any firm feeling, except that the money market banks formed a distinct class, and the \$100 million mark would not separate them from a number of other banks. There were about 300 banks above the \$100 million mark.

Mr. Noyes commented that \$100 million had been selected primarily as a figure that would cause a minimum of disruption under present circumstances. However, whether the Board wanted to write \$100 million into a bill as a permanent figure or provide flexibility for moving it up or down was another question.

Governor Daane said his feeling was that the ranges suggested were all right as original or transitional figures, but he believed that instead of locking those figures in there should be flexibility to adjust them if deemed advisable.

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After further comments were exchanged as to the reasons underlying the suggested ranges, Governor Mitchell suggested that the primary reason for classification of banks according to deposit size apparently was to give an earnings advantage to smaller banks. It should be possible, he thought, for the staff to develop a quantitative analysis of where the breaking points should be. Generally speaking, he was inclined to agree with the view that the very small bank was at a disadvantage earnings-wise, and also that banks at \$100 million were in a different situation from banks of \$1 billion or \$2 billion. Perhaps there should be more size classifications if it was desired to preserve competitive equilibrium. It seemed to him that this was a policy issue.

Mr. Noyes repeated that the range structure suggested substantially carried forward the existing situation. If present relationships were disturbed unduly, windfall gains and losses would be realized. In general, small banks that were now System members would be subject to lighter requirements than at present, while small nonmembers would have to maintain somewhat higher reserves than under State law. The adjustments would about offset each other in aggregate.

Governor Daane expressed the view that there was not a good rationale for a fine gradation of requirements according to size; a uniform requirement would be preferable. However, he would go along with a structure that would give some advantage to small banks.

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There followed further discussion during which the thought was expressed that unless there were strong reasons for departing from the recommendations of the Committee on Financial Institutions, adherence to the range structure contemplated by the Committee would provide a measure of built-in support for proposed legislation.

Governor Balderston referred to the range of from 3 to 6 per cent for reserve requirements against time deposits that had been contemplated in the Committee's discussions, and asked if there had been any serious consideration of removing reserve requirements against time deposits altogether, as recommended in 1961 by the Commission on Money and Credit.

Mr. Noyes responded that the time deposit form was now being used, in effect, for some deposits that were essentially demand deposits. The problem would be further aggravated if time deposits were reserve-free. The recommendation of the Commission on Money and Credit had been debated in the Committee, but the general view had been that it would be undesirable to cut the reserve requirement against time deposits to zero.

3. The April 21 memorandum suggested that a draft bill provide that required reserves might be in the form of either balances at a Reserve Bank or vault cash. There seemed no reason to retain the Board's power to "permit, under such regulations as it may prescribe" the counting of vault cash.

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No exception was taken to this suggestion.

4. The memorandum suggested that perhaps the Board should have power to move the \$100 million dividing line upward or downward, and to move the \$5 million line upward. It was thought that presumably the Board would not want power to move the \$5 million line downward, since if it had such power it would be able to increase the requirement above 9 per cent on the first \$5 million, which the Committee had not favored.

Governor Mitchell remarked that he was not entirely satisfied with the top dividing line of \$100 million, but would probably be less satisfied with a provision giving the Board discretion to alter that line: at least in the preliminary draft of legislation, he would be inclined to omit provision for discretion. In his view, fixing the rules on such a matter should be a Congressional prerogative because those rules influenced bank profitability.

Governor Daane expressed a preference for flexibility to change the classifications; to move as close as possible to Governor Mitchell's position, he would suggest retaining the breaks outlined in the memorandum and adding another at the top. He did not see that the virtue of a minimum of transitional impact was a good reason for freezing the size classifications. It would be well, he thought, to provide enough leeway initially that it would not be necessary to ask for changed authority soon thereafter.

Governor Mitchell said he did not think it would be necessary to ask Congress for a change frequently. However, he also was not entirely



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satisfied with the rationale that the proposed initial classifications would cause the least disturbance. He would like to see earnings analyses that would support the need for providing an advantage to small banks because of their operating costs.

Mr. Hackley suggested the possibility of providing authority for the Board to move each of the dividing lines upward - for example, to move the upper limit for the lowest size classification from \$5 million to \$10 million, and the line for the top one from \$100 million to \$500 million.

Governor Shepardson commented that some flexibility was inherent in the percentage spreads; providing ranges such as Mr. Hackley had suggested for the amount brackets might allow as much leeway as would be reasonable.

Governor Balderston expressed substantially the same view.

After further discussion, the members of the Board agreed that a provision such as suggested by Mr. Hackley might be used for initial drafting purposes.

5. The next question raised in the April 21 memorandum turned on the present provision in paragraph 7 of section 19 of the Federal Reserve Act, which empowered the Board to raise or lower reserve requirements in order to "prevent injurious credit expansion or contraction." Although that provision presumably should be retained, it was suggested that the requirement for the affirmative vote of four members of the

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Board might be omitted. It was noted that in connection with the proposed Financial Institutions Act of 1957, the Board had recommended that all actions of the Board be permitted to be taken by a majority of a quorum.

Discussion touched upon the history and intent of the statutory criterion that reserve requirement changes be made in order to prevent injurious credit expansion or contraction, and the possibility that changes in reserve requirements could be desirable in certain circumstances even though not directly attributable to that purpose. General agreement was then expressed with a suggestion by Mr. Hackley that the present provision of the law be retained in draft legislation, but that there be added language somewhat like the provision in section 12A of the Federal Reserve Act that open market operations "shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country."

Discussion of the requirement that changes in reserve requirements be adopted by the affirmative vote of at least four members of the Board included comments that it had been the Board's practice to have its full membership present, or at least as many members as possible, whenever any important monetary policy or bank supervision matter was to be decided. At times in the past, however, there had sometimes been delays in appointments to fill vacancies in the membership, and this suggested a potential problem if a similar circumstance should

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again occur. The background of the Board's recommendation in connection with the Financial Institutions Act was also reviewed. Various suggestions were offered for alternate provisions in the draft bill, but at the end of the discussion it was the sense of the Board to retain, at least for the present, the requirement of four affirmative votes.

6. The April 21 memorandum suggested that paragraph 6(2) of section 19 of the Federal Reserve Act, empowering the Board to permit any bank in a reserve city to hold "country bank" reserves, be deleted since it would no longer be needed, and that the Board's authority to classify cities as reserve cities likewise be repealed.

There was no disagreement with these suggestions.

7. The memorandum suggested that the Board might request authority to set different requirements, within the range of 3 to 6 per cent, on different kinds of time and savings deposits (although such a differentiation could be regarded as being outside of the subjects suggested by the Committee on Financial Institutions).

Governor Mitchell commented that, while he did not feel strongly, he thought there was something to be said for obtaining authority that would enable the Board to make deposits represented by negotiable certificates the subject of higher reserve requirements than other time and savings deposits.

After discussion of such an approach in the light of problems that might arise, it was understood that the draft bill would include

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provision that would allow different reserve requirements to be imposed on different classes of time and savings deposits.

8. The April 21 memorandum suggested that continuation of the Board's present authority to prescribe rules and regulations presumably would be adequate for establishing a reserve-averaging period so that the requirements did not have to be met on every single day.

Discussion disclosed a consensus that the present provisions probably would be adequate, although Governor Mitchell remarked that he would like to be sure that the law provided reasonable flexibility within which the Board could operate.

9. The April 21 memorandum recommended that a draft bill include authority for the Board to require from nonmember banks such reports as might be necessary to determine and police the reserve position of such banks. The Legal Division had indicated that it would want to consider further a number of alternatives relating to enforcement in the case of nonmember banks. These might include provision for a daily penalty for continued noncompliance; provision authorizing the Board to make examinations of nonmember banks, and to institute proceedings to determine compliance; provision for criminal penalties; or provision for denial of the discount privilege (assuming it had been extended to nonmember banks) upon failure to comply with reserve requirements.

Governor Mitchell said his reaction was against asking for more authority than was really needed, and consequently drawing more attention to the problem than was necessary.

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Governor Daane expressed agreement with Governor Mitchell's general approach.

After further discussion there was agreement that the particular provisions to be included should be left to the determination of the Legal Division, within the framework of a minimum approach.

10. The memorandum of April 21 suggested that the two parts of the proposal (the change to graduated reserve requirements, and the extension of requirements to nonmember banks) be included in a single bill rather than proposed in separate bills. This would be a calculated risk. On the other hand, use of a single bill might lessen the chance of losing half the package in the legislative process. Furthermore, while the part relating to member banks, if presented separately, would not be opposed by nonmember banks, it would presumably be opposed by member banks that now had a "country bank" status and whose requirements would be increased; there would seem more chance of overcoming opposition of this kind if the bill were a single proposal that could be advocated as setting up a system of requirements that would apply in an equitable manner to all of the nation's banks. Finally, if a graduated system were being proposed for member banks alone, without extension to nonmembers, a somewhat higher set of percentage requirements would be called for; the proposed figures took account of the transfer of nonmember bank balances to the Reserve Banks.

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Discussion disclosed agreement that the two parts of the proposal should be included in a single initial draft bill.

11. The final question raised in the April 21 memorandum was whether, along with the extension of reserve requirements to nonmember banks, Federal Reserve discount privileges should be extended to them, as recommended by the Committee on Financial Institutions.

Comments indicated a consensus that, if nonmember banks were brought within the coverage of reserve requirements, they should be granted the discount privilege.

It was understood, at the conclusion of the discussion, that the Legal Division would take into account the views that had been expressed at this meeting in preparing an initial draft of proposed legislation for the Board's consideration.

All members of the staff then withdrew and the Board went into executive session.

Nomination of Mr. Irvine. The Secretary's Office was informed later that the Board had approved the recommendation by Mr. Young, Adviser to the Board and Director, Division of International Finance, in a memorandum dated August 7, 1964, that Reed J. Irvine, Associate Adviser in the Division, be nominated to attend the International Banking Summer School to be held in Melbourne, Australia, February 7-20, 1965. It was understood that if Mr. Irvine was accepted for participation, Board approval probably would be requested for him to visit central banks in

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Japan and other Australasian countries, at which time approval would also be requested for travel and other expenses in connection with the trip.

The meeting then adjourned.

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

Letter to the Federal Reserve Bank of Cleveland requesting an arrangement under which Oscar Beach, of that Bank's staff, would spend one or two days a week at the Board's offices over a three-month period in connection with a pilot project for the collection of data on small samples of consumer loans made, refused, paid off, and charged off at about 20 commercial banks during the third quarter of 1964, with indication given that the Board would be willing to pay Mr. Beach's travel expenses. (Note: In the light of the reply from the Cleveland Reserve Bank, minor changes in the details of the arrangements were agreed upon.)

Memoranda recommending the following actions relating to the Board's staff:

Appointment

Nathaniel Greenspun as Economist, Division of Research and Statistics, with basic annual salary at the rate of \$14,065, effective the date of entrance upon duty.

Salary increases, effective August 16, 1964

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
	<u>Legal</u>		
Robert F. Sanders, Attorney		\$7,260	\$8,410
	<u>Research and Statistics</u>		
Juanita S. Carpenter, Secretary		6,285	6,460
Mary Therese Gregory, Statistical Assistant		5,170	5,330
Neva G. Van Peski, Economist		8,690	8,970
Frances D. Skehan, Statistical Assistant		5,330	5,490

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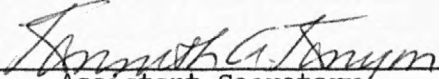
Salary increases, effective August 16, 1964 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>International Finance</u>			
Michael A. Gomez, Economist		\$10,640	\$10,970
<u>Administrative Services</u>			
Willa McChesney Davis, Utility Clerk		5,330	5,490
Opal I. O'Dell, Charwoman		3,305	3,410
<u>Data Processing</u>			
Donald B. Fitzhugh, Data Processing Planner		9,980	10,310

Acceptance of resignations

Ann Sherman, Secretary, Division of Research and Statistics, effective at the close of business August 21, 1964.

Walter J. Baker, Guard, Division of Administrative Services, effective at the close of business August 28, 1964.

  
Assistant Secretary



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1  
8/12/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 12, 1964.



Mr. Eugene P. Heytow,  
Metropolitan Investments Corporation,  
105 South La Salle Street,  
Chicago, Illinois.

Dear Mr. Heytow:

This refers to the request contained in a letter submitted through the Federal Reserve Bank of Chicago for a determination by the Board of Governors of the Federal Reserve System as to the status of Metropolitan Investments Corporation as a holding company affiliate.

From the information presented, the Board understands that the object and purpose of Metropolitan Investments Corporation is to own and hold stock and other interests in a banking corporation and other corporations; that it is a holding company affiliate by reason of the fact that it owns 1,100 (55 per cent) of the 2,000 outstanding shares of stock of Metropolitan State Bank, Chicago, Illinois; 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 Metropolitan Investments Corporation 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, it 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.

Mr. Eugene P. Heytow

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If, however, the facts should at any time indicate that Metropolitan Investments Corporation 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.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

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

Item No. 2  
8/12/64

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

August 12, 1964.

Chase Manhattan Overseas Banking Corporation,  
1 Chase Manhattan Plaza,  
New York 5, New York.

Gentlemen:

In accordance with the request and on the basis of the information furnished in your letter of July 27, 1964, the Board of Governors grants its consent to the purchase by your Corporation of all the shares of a nominee corporation to be organized under the laws of the Colony of Hong Kong at a cost not to exceed approximately US\$165.

It is understood that the nominee corporation is to be organized and maintained solely for the purpose of acting as nominee for the registration of securities acquired or held by the Hong Kong Branch of The Chase Manhattan Bank for the account of its customers; that all shares of the nominee corporation are to be owned by your Corporation, except such shares as may be held by individuals in order to meet Hong Kong legal requirements as to number of shareholders and as to qualifying shares for directors, and all such shares would be held in trust for or assigned to your Corporation under appropriate instruments of transfer; and that it is anticipated that the authorized capital of the nominee corporation would not exceed HK\$1,000 (equivalent to approximately US\$165) and that the paid-in capital would not exceed HK\$100 (equivalent to approximately US\$16).

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.



2796

**T E L E G R A M**  
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 3  
8/12/64

August 12, 1964.

COOMBS - NEW YORK

Your wire August 6. Board approves opening and maintenance of an account on your books in the name of the Banque Nationale du Congo, subject to the usual terms and conditions. It is understood that participation in this account will be offered to other Federal Reserve Banks.

(Signed) Kenneth A. Kenyon

KENYON

UNITED STATES OF AMERICA

Item No. 4  
8/12/64

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

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In the Matter of the Application of  
BARNETT NATIONAL SECURITIES CORPORATION  
for approval of the acquisition of voting  
shares of The San Jose Barnett Bank,  
Jacksonville, Florida, a proposed new bank.  
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ORDER APPROVING APPLICATION UNDER  
BANK HOLDING COMPANY ACT

There has come before the Board of Governors, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(a)(2)) and section 222.4(a)(2) of Federal Reserve Regulation Y (12 CFR 222.4(a)(2)), an application on behalf of Barnett National Securities Corporation, Jacksonville, Florida, a registered bank holding company, for the Board's approval of the acquisition of 80 per cent or more of the voting stock to be issued by The San Jose Barnett Bank, Jacksonville, Florida, a proposed new bank.

As required by section 3(b) of the Act, the Board notified the Florida State Commissioner of Banking of receipt of the application and requested his views and recommendation thereon. The Commissioner recommended approval of the application. Notice of receipt of the

application was published in the Federal Register on April 9, 1964 (29 Federal Register 4976), which provided an opportunity for submission of comments and views regarding the application. Time for filing such comments and views has expired and all comments and views filed with the Board have been considered by it.

IT IS ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is granted, provided that the acquisition so approved shall not be consummated (a) within seven calendar days after the date of this Order or (b) later than three months after said date, and that The San Jose Barnett Bank shall be opened for business not later than six months after said date.

Dated at Washington, D. C., this 12th day of August, 1964.

By order of the Board of Governors.

Voting for this action: Vice Chairman Balderston, and Governors Mills, Robertson, Shepardson, and Mitchell.

Absent and not voting: Chairman Martin and Governor Daane.

(Signed) Kenneth A. Kenyon

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Kenneth A. Kenyon,  
Assistant Secretary.

(SEAL)

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Item No. 5  
8/12/64

APPLICATION BY BARNETT NATIONAL SECURITIES CORPORATION FOR APPROVAL  
OF THE ACQUISITION OF VOTING SHARES OF THE SAN JOSE BARNETT BANK,  
JACKSONVILLE, FLORIDA, A PROPOSED NEW BANK

STATEMENT

Barnett National Securities Corporation, Jacksonville, Florida ("Applicant" or "Barnett"), a registered bank holding company, has applied to the Board of Governors, under the Bank Holding Company Act of 1956 ("the Act"), for permission to acquire 80 per cent or more of the voting stock to be issued by The San Jose Barnett Bank, Jacksonville, Florida ("Bank"), a proposed new bank.

Views and recommendation of State supervisory authority. -

As required by section 3(b) of the Act, the Board notified the Florida State Commissioner of Banking of receipt of the application and requested his views and recommendation thereon. The Commissioner recommended approval of the application.

Statutory factors. - Section 3(c) of the Act requires the Board to take into consideration the following five factors: (1) the financial history and condition of the holding company and the banks concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities and the area concerned; and (5) whether the effect of the proposed acquisition would be to expand the size or extent of the bank holding company

system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

Applicant owns 60 per cent or more of the stock of four subsidiary banks located in the State of Florida and is affiliated through common ownership with The Barnett National Bank of Jacksonville ("Barnett National"). At December 20, 1963,\* Applicant's four subsidiary banks and Barnett National held combined deposits of \$214 million, of which Barnett National held \$141 million. (Hereinafter the phrase "Barnett Group" will refer to Applicant's four subsidiary banks and Barnett National.) One of Applicant's subsidiary banks and Barnett National are located in Duval County, the county in which Bank will be situated. Applicant's three remaining subsidiary banks are located at St. Augustine, DeLand, and Cocoa. With the exception of Barnett National, the Group banks range in size from \$12 million to \$27 million.

Applicant proposes to establish Bank in an unincorporated area of Duval County known as San Jose, approximately 6-1/2 miles southeast of downtown Jacksonville on the eastern bank of the St. Johns River. It is estimated that at the end of its third year of operation Bank will have deposits of \$5.5 million.

Financial history and condition, prospects, and management of Applicant and Bank. - Applicant's financial history and condition are considered to be satisfactory. Its prospects, measured in part by the sound financial condition of the Group banks, appear favorable.

\* Unless otherwise indicated, all banking data noted are of this date.



While Bank has no financial history, on the basis of its proposed capital structure, and its estimated deposits at the end of its third year of operation, the Board concludes that Bank's financial condition will be satisfactory and that its prospects as a subsidiary of Applicant are favorable.

The management of Applicant and of its subsidiary and affiliated banks is satisfactory. The Board concludes that the proposed management of Bank should be similarly satisfactory inasmuch as such management will be drawn initially from the staffs of Barnett National and Applicant's subsidiary bank in Jacksonville.

Convenience, needs, and welfare of the community and area concerned. - As earlier indicated, Bank will be located in a southeastern suburb of Jacksonville known as San Jose. Bank's primary service area will encompass approximately ten square miles and will be primarily residential in character. A study of the area reflects a growth in population from 2,500 in 1950 to 15,000 in 1960. The estimated 1964 population of the area is about 19,000. The number of residential dwelling units within the area, a large number of which are high-cost units for families with incomes considerably above the average for Duval County, increased from approximately 900 in 1950 to 4,800 in 1960. Applicant estimates that approximately 2,700 additional residential units will be constructed in the area by 1970.

While there are a few industrial and manufacturing concerns in the area, the commercial activity therein is principally related to servicing the several residential developments. Within Bank's

service area there are approximately 120 retail and 65 service establishments. The largest complex of retail and commercial outlets in the area is the San Jose Shopping Center located at the same intersection as, and across from, Bank's proposed site. This center has 30 - 40 establishments of the nature normally found in a complex serving a large residential area. A similar shopping center containing 14 establishments is located less than a mile from Bank's proposed site, and a third shopping center is now in the process of development approximately one mile from Bank's proposed site.

There is no banking office located within Bank's proposed service area. There is evidence that the area is now served by three banks located from 3 to 5 miles from Bank's proposed site and by at least five downtown banks. The three suburban banks are located generally between the northern edge of Bank's service area and downtown Jacksonville and offer the same general type of banking service that Bank proposes to offer.

Applicant does not contend, nor is there evidence to support a finding, that the major banking needs of the San Jose area are not being met by existing facilities. However, considering the past and prospective development of that area, and the distance from Bank's site of existing banking facilities, the fact that through consummation of Applicant's proposal there will result an additional and substantially more convenient source of banking service than is now available is a consideration weighing toward approval of the application.

Effect of proposed acquisition on adequate and sound banking, public interest, and banking competition. - Duval County is co-extensive with the Jacksonville metropolitan area. Within Duval County, the area principally affected by Applicant's proposal is the San Jose area. Also to be considered are the suburban communities in which are located banks that presently serve the San Jose area, and the downtown section of Jacksonville. As earlier indicated, two of the Barnett Group banks are located in Duval County. Barnett National, the largest of the Group's banks and third largest of the Jacksonville banks, holds deposits equal to 20 per cent of the combined deposits of all banks (\$714 million) in Duval County. The Group's other Duval County bank, the Murray Hill Barnett Bank, holds deposits of \$12 million, or about 2 per cent of the deposits held by all banks in the County. In addition to the Barnett Group banks, there are 20 other banks located in Duval County, 11 of which are components of one of two "bank groups". The Atlantic Trust group consists of 10 banks, 5 of which are located in Duval County. One of the five, The Atlantic National Bank of Jacksonville, is the largest bank in the County. Six of the banks in the County, including the second largest in Jacksonville, belong to the Florida National group.

The Duval County banks of the Atlantic Trust group hold combined deposits of \$246 million, or 34 per cent of the deposits of all banks in the County. The Florida National group banks in Duval County hold \$199 million of deposits, or 28 per cent of the deposits of all banks. The remaining nine banks in the County hold combined deposits of \$115 million, or 16 per cent of the total deposits of all banks.

In terms of dollar volume of deposits held by subsidiary and/or affiliated banks, the extent to which deposits of banks in Duval County are concentrated in both holding company and group banks is not insignificant. At the same time, however, such concentrations do not appear to represent, either in the case of the Barnett Group or in respect to either of the other two groups operating banks in Duval County, a dominance inimical to the nonaffiliated banks in the County. Since Bank is to be newly established, its acquisition by Applicant will not immediately alter the Barnett Group's competitive position in Duval County. Even adding to the combined deposits of that Group's banks the deposits expected at the end of three years of Bank's operation, the percentage of deposits of all banks in the County held by the Group's banks would be increased by less than one per cent.

Turning to consideration of the probable effect of Applicant's proposed acquisition on competing banks in the area, as earlier noted there are no other banks located in Bank's proposed primary service area. The only bank in the Barnett Group that competes measurably in the San Jose area is Barnett National. Some \$365,000 of its deposits of individuals, partnerships, and corporations (representing .4 per cent of its total of such deposits) and \$100,000 of its commercial loans (representing .5 per cent of the total of such loans) are derived from Bank's designated service area. Even when viewed alone, these totals are not such as to suggest the potential for substantial competition between Barnett National and

Bank were Bank to be operated independent of the Barnett Group. The potential for any substantial competition between Barnett National and Bank is further lessened by the location of the earlier mentioned banks between Bank's proposed site and downtown Jacksonville, and the fact that other downtown Jacksonville banks, including the two that are larger than Barnett National, would also compete for business in the San Jose area. The three suburban banks serving the San Jose area, their distances from Bank's proposed site, and their sizes by deposits are as follows: Southside Atlantic Bank (member of the Atlantic group), 3.3 miles distant, with deposits of about \$8 million; American National Bank, 3.7 miles distant, with deposits of \$32 million; and State Bank of Jacksonville, 5 miles distant, with deposits of \$27 million. In view of the fact that each of these banks is located outside Bank's designated primary service area, and considering their respective sizes in relation to that projected for Bank at the end of its third year of operation, there is no basis for a finding that Applicant's acquisition and operation of Bank will have any significant adverse effect on these banks. In this regard, the Board has noted the absence of any expressed opposition by these banks to Applicant's proposal.

The facts earlier related as to the location, size, and competitive position of Barnett National warrant the conclusion that its affiliation with Bank in the Barnett Group will have no consequences of a nature requiring denial of Applicant's proposal.

Conclusion. - Viewing the relevant facts in the light of the general purposes of the Act and the factors enumerated in section 3(c) thereof, it is the Board's judgment that the proposed acquisition would be consistent with the public interest and that the application should be approved.

August 12, 1964.