

Minutes for August 19, 1964

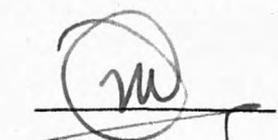
To: Members of the Board
From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

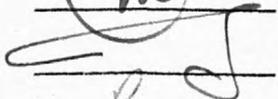
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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.

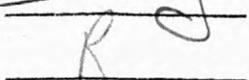
Chm. Martin



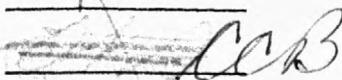
Gov. Mills



Gov. Robertson



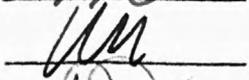
Gov. Balderston



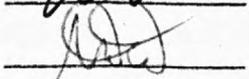
Gov. Shepardson



Gov. Mitchell



Gov. Daane



Minutes of the Board of Governors of the Federal Reserve System on Wednesday, August 19, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson
Mr. Mitchell

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. Solomon, Director, Division of
Examinations
Mr. Shay, Assistant General Counsel
Mr. Holland, Associate Director, Division
of Research and Statistics
Mr. Partee, Adviser, Division of Research
and Statistics
Mr. Goodman, Assistant Director, Division
of Examinations
Mr. Leavitt, Assistant Director, Division
of Examinations
Mr. Spencer, General Assistant, Office of
the Secretary
Mr. Potter, Senior Attorney, Legal Division
Mr. Via, Senior Attorney, Legal Division
Mr. McClintock, Supervisory Review Examiner,
Division of Examinations
Mr. Smith, Review Examiner, Division of
Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on August 17, 1964, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

8/19/64

-2-

Circulated or 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 Riverside Trust Company, Riverside, New Jersey, approving the establishment of a branch in Delran Township.	1
Letter to Union Trust Company of Maryland, Baltimore, Maryland, approving the establishment of a branch in Glen Burnie.	2
Letter to Columbus Bank and Trust Company, Columbus, Georgia, approving the establishment of a branch in the Midtown Shopping Center.	3
Letter to Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, approving the establishment of a branch in the Middletown Plaza Shopping Center, Middletown.	4
Letter to United California Bank, Los Angeles, California, approving the establishment of a branch near Moorpark Road and Village Lane, Ventura County.	5
Letter to Morgan Guaranty International Finance Corporation, New York, New York, granting consent to the purchase of additional shares of Banco del Desarrollo Economico Espanol S. A., Madrid, Spain.	6
Letter to Wilmington Trust Company, Wilmington, Delaware, interposing no objection to a realignment of banking activities at its branch at 222 West 11th Street.	7

Report on competitive factors (Newport News-Hampton, Virginia).

A report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of The Citizens National Bank of Hampton, Hampton, Virginia, into Citizens Marine Jefferson Bank, Newport

8/19/64

-3-

News, Virginia, was approved unanimously for transmittal to the Corporation. The conclusion read as follows:

Although each bank presently obtains business primarily from the city in which it is located rather than the entire Newport News-Hampton metropolitan area, consummation of the proposed merger of Citizens Marine Jefferson Bank, Newport News, and The Citizens National Bank of Hampton would eliminate competition existing between them. The competitive capabilities of the merged bank would be considerably enhanced primarily by its increase in geographical coverage and the strategic locations of its 10 offices, and otherwise by its increased resources. The smaller local independent banks would be exposed to the competitive capabilities of this considerably larger bank and the competitive impact incurred might represent a potential threat to their ability to maintain their share of the banking market. While the proposed merger would not represent a pronounced trend toward monopoly, it would increase the concentration of local commercial banking resources under the control of two bank holding companies and the State's largest bank. It would also further concentrate banking resources in the State of Virginia.

Question relating to share acquisitions. There had been distributed a memorandum dated August 14, 1964, from the Legal Division discussing at some length the legal questions arising in connection with the application of the Bank Holding Company Act to certain share acquisitions by Financial Institutions, Inc., Warsaw, New York, a registered bank holding company.

The memorandum pointed out that Financial Institutions, Inc., owned directly more than 25 per cent of the outstanding shares of two banks. In addition, it owned directly 38.5 per cent of the voting shares of Geneva Shareholders, Inc., a nonbanking corporation that in turn owned 93.52 per cent of the outstanding shares of a third bank, The National

8/19/64

-4-

Bank of Geneva, Geneva, New York. Financial Institutions held its shares of Geneva pursuant to an exemptive order of the Board dated September 10, 1958, under section 4(c)(6) of the Bank Holding Company Act. Between year-end 1959 and year-end 1962, Financial Institutions increased its ownership of voting shares of Geneva from 32 per cent to 39 per cent without obtaining approval from the Board.

The principal question presented was whether Financial Institutions had increased its interest in National Bank of Geneva in a manner requiring Board approval, but without obtaining such approval, in violation of section 3(a) of the Bank Holding Company Act. It was concluded, however, that such approval was not required, on the ground that Financial Institutions already controlled a majority of the voting shares of the bank. It was noted that such a conclusion rested on various secondary conclusions pertaining to the construction and interpretation of the Bank Holding Company Act, these being explored in some detail in the memorandum. It was pointed out that if the Board agreed with the conclusion of the Legal Division, no action was required. If the Board was of a different view, then the failure of Financial Institutions to obtain prior approval remained to be dealt with as an apparent violation of the Act.

At the Board's request, Mr. Potter commented in supplementation of the information presented in the August 14 memorandum. In the course of his comments he described how, in considering the matter before the

8/19/64

-5-

Board, indirect ownership and control of shares had been computed, and he discussed the question of the degree of share ownership that might be regarded as constituting "control" of a corporation for the purposes of the Bank Holding Company Act.

There followed a discussion during the course of which inquiry was made as to whether acceptance of the Legal Division's reasoning would provide any substantial incentive to bank holding companies to multiply their holdings without coming to the Board for approval of additional investments. In reply, Mr. Hackley pointed out that section 3(a) of the Bank Holding Company Act provides that it is unlawful, except with prior Board approval, for a bank holding company to acquire direct or indirect ownership or control of voting shares of a bank if, after such acquisition, the company would directly or indirectly own or control more than 5 per cent of the voting shares of the bank. The exception contained in subsection (B) would apply only to the acquisition of additional shares of a bank in which the bank holding company owned or controlled a majority of the voting shares prior to such acquisition.

Governor Mitchell inquired about the possibility of establishing the element of control through examination of the facts involved, such as the distribution of share ownership, rather than through use of a formula, as the Legal Division had done. In reply, Mr. Hackley said he had had some reservations about the compounding of percentages of share ownership in determining indirect ownership. However, he was not

8/19/64

-6-

unduly disturbed because in practice the question was not likely to arise frequently. In this particular case, it seemed clear that Board approval of the share acquisitions of Financial Institutions was not required because the company controlled a majority of the voting shares of the national bank prior to its acquisition of additional shares of Geneva Shareholders, Inc.

At the conclusion of the discussion, agreement was expressed in this case with the conclusion reached by the Legal Division, namely, that the increases in Financial Institutions' indirect ownership of voting shares of National Bank of Geneva through acquisition of additional shares of Geneva Shareholders, Inc., did not require prior Board approval under the Bank Holding Company Act because Financial Institutions already controlled, within the meaning of the Act, a majority of the national bank's voting shares.

Messrs. Potter, McClintock, and Smith then withdrew from the meeting.

Data processing services for customers of subsidiary banks (Items 8 and 9). There had been distributed, with a memorandum from the Legal Division dated August 17, 1964, a draft of letter to the Federal Reserve Bank of Richmond expressing the opinion that First Service Company, a subsidiary of The First Virginia Corporation, Arlington, Virginia, could provide certain data processing services for customers of First Virginia Corporation's subsidiary banks without losing its

8/19/64

-7-

exempt status under section 4(c)(1) of the Bank Holding Company Act. First Service Company already performed data processing services for First Virginia Corporation's subsidiary banks; the services here in question would be performed at the request of such banks, but for customers of those banks.

In discussing the matter Mr. Shay noted that the term "services," as used in section 4(c)(1) of the Bank Holding Company Act, is not defined in the Act. However, the Board had ruled that the term referred to servicing operations that a bank itself could legitimately perform, but which the bank chose to have performed through another organization. A 1958 ruling set forth various types of services that the Congress evidently intended to qualify for exemption under section 4(c)(1). The proposed opinion seemed to fall clearly within the principles already laid down by the Board. As to the remaining question--whether the banks involved were permitted to perform the data processing services contemplated--it was proposed that this question be resolved, in the case of a State-chartered bank, by reference to the laws of the State in which it operated. In the case of a national bank, the answer would be governed by reference to the provisions of Federal law relating to the establishment and operation of national banks. In either case, reference also would be made to rulings or interpretations of appropriate State or Federal authorities. It was understood that at present national banks and banks in various States were offering to customers a broad range of data processing services.

8/19/64

-8-

There followed further discussion of the extent to which banks were now providing computer services, after which the letter to the Federal Reserve Bank of Richmond was approved unanimously subject to an editorial change at one point suggested by Governor Balderston. It was understood that the substance of the letter would be published as a Board interpretation. A copy of the letter, as sent, is attached as Item No. 8; a copy of the interpretation is attached as Item No. 9.

Messrs. Shay, Goodman, and Via then withdrew from the meeting.

Quarterly survey of changes in bank lending practices. In a memorandum from Mr. Noyes dated August 14, 1964, which had been distributed, it was proposed that the System conduct a quarterly survey of changes in bank practices regarding the terms and conditions specified on loans to business borrowers, including finance companies.

The memorandum pointed out that one of the important remaining gaps in banking statistics was the lack of current information concerning changes in nonprice terms and conditions under which bank credit was available to businesses. A program for developing information of this kind had been worked out by System research committees and endorsed for experimental use by the Conference of Reserve Bank Presidents at its meeting on June 15, 1964. Coverage would be confined initially to the 75 respondent banks in the existing quarterly interest rate survey, but the intention was to move toward a broader and more representative sample as soon as practicable. A draft of a proposed questionnaire to be used for the survey was attached to the memorandum.

8/19/64

-9-

In commenting on the proposed program, Mr. Noyes indicated that the survey reportedly was rather favorably received by the commercial banks with which it had been discussed, and the banks apparently had not expressed objection to whatever additional reporting burden would be involved.

In discussion, Governor Mills expressed some reservation about initiating such a survey. The data obtained from it, if published, might be interpreted in various ways by different people, and the effect could be to start an undesirable trend in bank lending practices at an unfortunate time. The end result of the survey might be, in effect, to institute a kind of selective credit control. Under certain circumstances, it was conceivable that publication of such data might encourage, for example, a contraction of the availability of bank credit to businesses.

It was pointed out by the staff that the survey was intended to provide valuable data in an area where little information was now available. It was recognized that an element of risk along the lines mentioned by Governor Mills might be involved, and that the questionnaire might need modification in light of experience. For such reasons, the survey would be conducted initially on an experimental basis, and it would be subject to appraisal and evaluation after a few quarters to determine whether it should be expanded, altered, or discontinued.

At the conclusion of the discussion, the quarterly survey of changes in bank lending practices, as proposed in the memorandum of

8/19/64

-10-

August 14, was authorized, such action recognizing that the survey was to be undertaken on an experimental basis.

All members of the staff except Messrs. Kenyon, Molony, and Fauver then withdrew from the meeting.

Director appointment. After discussion, it was agreed to ascertain through the Chairman of the Federal Reserve Bank of Boston whether Mr. James McCormack, Vice President of Massachusetts Institute of Technology, Cambridge, Massachusetts, would accept appointment, if tendered, as Class C director of the Bank for the remaining portion of the unexpired term ending December 31, 1965, to succeed Mr. John T. Fey, who had resigned, with the understanding that the appointment would be made if it were ascertained that Mr. McCormack was available.

System legislation. In light of various considerations that were discussed, during which Chairman Martin referred to a letter from President Hayes of the Federal Reserve Bank of New York dated August 7, 1964, that would be distributed to the members of the Board for their review, it was understood that during the coming months the Board would continue to give thought to the development of possible legislation relating to the structure of the Federal Reserve System that at some point might be proposed on a System basis.

The meeting then adjourned.

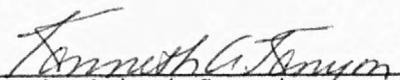
Secretary's Note: Acting in the absence of Governor Shepardson, Governor Robertson today approved on behalf of the Board the following items:

8/19/64

-11-

Letter to the Federal Reserve Bank of Atlanta (attached Item No. 10) approving the appointment of Donald J. Snell as assistant examiner.

Memorandum from the Office of the Controller recommending an advance of sick leave for Kathleen J. O'Connor, Disbursing Clerk in that Division, for a period of 18 days, 6 hours, and 30 minutes, beginning July 13, 1964, and extending through August 6, 1964.


Assistant Secretary

2877

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
8/19/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 19, 1964

Board of Directors,
Riverside Trust Company,
Riverside, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Riverside Trust Company, Riverside, New Jersey, at the southwest corner of the intersection of U. S. Route 130 and Haines Mill Road, Delran Township, Burlington County, New Jersey, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

2878

Item No. 2
8/19/64

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 19, 1964

Board of Directors,
Union Trust Company of Maryland,
Baltimore, Maryland.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Union Trust Company of Maryland, Baltimore, Maryland, of a branch on the east side of Crain Highway between Fifth and Sixth Avenues in Glen Burnie, Anne Arundel County, Maryland, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 3
8/19/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 19, 1964

Board of Directors,
Columbus Bank and Trust Company,
Columbus, Georgia.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Columbus Bank and Trust Company, Columbus, Georgia, in the Midtown Shopping Center on Macon Road, Columbus, Georgia, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4
8/19/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 19, 1964

Board of Directors,
Citizens Fidelity Bank and Trust Company,
Louisville, Kentucky.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, of a branch in the Middletown Plaza Shopping Center, in the vicinity of the intersection of Shelbyville Road and Evergreen Road, Middletown, Jefferson County, Kentucky, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)





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

2881

Item No. 5
8/19/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 19, 1964

Board of Directors,
United California Bank,
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by United California Bank in the vicinity of the intersection of Moorpark Road and Village Lane, an unincorporated area in Ventura County, California, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6
8/19/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 19, 1964

Morgan Guaranty International
Finance Corporation,
23 Wall Street,
New York 15, New York,

Gentlemen:

In accordance with the request contained in your letter of July 14, 1964, transmitted through the Federal Reserve Bank of New York, and on the basis of information furnished, the Board of Governors grants consent for your Corporation to purchase and hold an additional 17,500 shares, par value Spanish Pesetas 1000 each, of the capital stock of Banco del Desarrollo Economico Espanol S.A., Madrid, Spain, at a cost of approximately US\$292,000, provided such stock is acquired within one year from the date of this letter.

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. 7
8/19/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 19, 1964

Board of Directors,
Wilmington Trust Company,
Wilmington, Delaware.

Gentlemen:

On February 27, 1964, the Board of Governors of the Federal Reserve System approved the establishment by Wilmington Trust Company of a branch at 222 West 11th Street, Wilmington, Delaware, limited to activities directly connected with initiating and servicing mortgages and to conducting associated casualty insurance business.

The Board of Governors notes that Wilmington Trust Company now wishes to move the mortgage and insurance business from the branch at 222 West 11th Street to another office and to transfer to the branch at 222 West 11th Street the stock transfer and registration functions of the corporate trust division and activities connected with servicing dealer originated instalment loans.

The Board of Governors interposes no objections to the realignment of banking activities by Wilmington Trust Company at the branch at 222 West 11th Street as outlined in the preceding paragraph.

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. 8
8/19/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 19, 1964.

Mr. John L. Nosker, Vice President,
Federal Reserve Bank of Richmond,
Richmond, Virginia. 23213

Dear Mr. Nosker:

This refers to your letter of June 17, 1964, transmitting for Board determination the substance of a request submitted by The First Virginia Corporation, Arlington, Virginia ("First Virginia"), a registered bank holding company, that its wholly-owned nonbanking subsidiary, First Service Company ("Company"), can, without losing its "exempt status" under section 4(c)(1) of the Bank Holding Company Act of 1956 ("the Act"), provide data processing services for customers of First Virginia's subsidiary banks.

The Board's understanding of the facts presented by First Virginia is that Company owns a computer which it presently utilizes to furnish data processing services for First Virginia's subsidiary banks. Customers of these banks have requested that the banks provide for them computerized billing, accounting, and financial records maintenance services. The banks wish to utilize the computer services of Company in providing these and other services of a similar nature. It is proposed that, in each instance where a First Virginia subsidiary bank undertakes to provide such services, the bank will enter into a contract directly with the customer and then arrange to have Company perform the services for it, the bank. In no case will Company provide services for anyone other than its affiliated banks. Moreover, it will not hold itself out as, nor will its parent corporation or affiliated banks represent it to be, authorized or willing to provide services for others.

Section 4(c)(1) permits a holding company to own shares in "any company engaged solely . . . in the business of furnishing services to or performing services for such holding company and banks with respect to which it is a bank holding company. . . ." The Board has ruled that the term "services" as used in section 4(c)(1) is to be read as relating to those services (excluding "closely related" activities of "a financial, fiduciary, or insurance nature" within the meaning of section 4(c)(6)) which a bank itself can provide for its customers. (1958 Federal Reserve Bulletin 431)

Mr. John L. Nosker

-2-

A determination as to whether a particular service may legitimately be rendered or performed by a bank for its customers must be made in the light of applicable Federal or State statutory or regulatory provisions. In the case of a State-chartered bank, the laws of the State in which the bank operates, together with any interpretations thereunder rendered by appropriate bank authorities, would govern the right of the bank to provide a particular service. In the case of a national bank, a similar determination would require reference to provisions of Federal law relating to the establishment and operation of national banks, as well as to pertinent rulings or interpretations promulgated thereunder. Thus, on the assumption that all of the services to be performed are of the kinds that First Virginia's subsidiary banks may render for their customers under applicable law, it is the Board's opinion that Company's rendition of these services for its affiliated banks would not adversely affect its present status under section 4(c)(1) of the Act.

In transmitting the Board's views to First Virginia, you are urged to emphasize that such views are premised explicitly upon the facts as furnished by First Virginia, and upon First Virginia's position that the proposed services are permitted to be performed by banks under applicable Federal or State law. It should be emphasized also that, in respect to Company's operations, there continues in effect the requirement under section 4(c)(1) that Company engage solely in the business of furnishing services to or performing services for First Virginia and its subsidiary banks. Of course, any substantial change in the facts that have been presented might require re-examination of Company's status under section 4(c)(1).

It would be appreciated if you would convey the substance of this letter to First Virginia.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Item No. 9
8/19/64

TITLE 12 - BANKS AND BANKING

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. Y]

PART 222--BANK HOLDING COMPANIES

§ 222.118 Computer services for customers of subsidiary banks.

(a) The question has been presented to the Board of Governors whether a wholly-owned nonbanking subsidiary ("service company") of a bank holding company, which is now exempt from the prohibitions of section 4 of the Bank Holding Company Act of 1956 ("the Act") because its sole business is the providing of services for the holding company and the latter's subsidiary banks, would lose its exempt status if it should provide data processing services for customers of the subsidiary banks.

(b) The Board understood from the facts presented that the service company owns a computer which it utilizes to furnish data processing services for the subsidiary banks of its parent holding company. Customers of these banks have requested that the banks provide for them computerized billing, accounting, and financial records maintenance services. The banks wish to utilize the computer services of the service company in providing these and other services of a similar nature. It is proposed that, in each instance where a subsidiary bank undertakes to provide such services, the bank will enter into a contract directly with the customer and then arrange to have the service company perform the services for it, the bank. In no case will the service

-2-

company provide services for anyone other than its affiliated banks. Moreover, it will not hold itself out as, nor will its parent corporation or affiliated banks represent it to be, authorized or willing to provide services for others.

(c) Section 4(c)(1) of the Act permits a holding company to own shares in "any company engaged solely . . . in the business of furnishing services to or performing services for such holding company and banks with respect to which it is a bank holding company" The Board has ruled heretofore that the term "services" as used in section 4(c)(1) is to be read as relating to those services (excluding "closely related" activities of "a financial, fiduciary, or insurance nature" within the meaning of section 4(c)(6)) which a bank itself can provide for its customers. (12 CFR 222.104) A determination as to whether a particular service may legitimately be rendered or performed by a bank for its customers must be made in the light of applicable Federal or State statutory or regulatory provisions. In the case of a State-chartered bank, the laws of the State in which the bank operates, together with any interpretations thereunder rendered by appropriate bank authorities, would govern the right of the bank to provide a particular service. In the case of a national bank, a similar determination would require reference to provisions of Federal law relating to the establishment and operation of national banks, as well as to pertinent rulings or interpretations promulgated thereunder.

(d) Accordingly, on the assumption that all of the services to be performed are of the kinds that the holding company's subsidiary banks

-3-

may render for their customers under applicable Federal or State law, the Board concluded that the rendition of such services by the service company for its affiliated banks would not adversely affect its exempt status under section 4(c)(1) of the Act.

(e) In arriving at the above conclusion, the Board emphasized that its views were premised explicitly upon the facts presented to it, and particularly its understanding that banks are permitted, under applicable Federal or State law, to provide the proposed computer services. The Board emphasized also that in respect to the service company's operations, there continues in effect the requirement under section 4(c)(1) that the service company engage solely in the business of furnishing services to or performing services for the bank holding company and its subsidiary banks. The Board added that any substantial change in the facts that had been presented might require re-examination of the service company's status under section 4(c)(1).

(Interprets 12 U.S.C. 1843(c)(1))

Dated at Washington, D. C., this 19th day of August, 1964.

By order of the Board of Governors.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 10
8/19/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 20, 1964

CONFIDENTIAL (FR)

Mr. R. M. Stephenson, Vice President,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia. 30303

Dear Mr. Stephenson:

In accordance with the request contained in your letter of August 12, 1964, the Board approves the appointment of Donald J. Snell as an assistant examiner for the Federal Reserve Bank of Atlanta, effective October 12, 1964.

It is noted that Mr. Snell presently is indebted to The Fulton National Bank of Atlanta, Atlanta, Georgia, and anticipates obtaining an additional loan of approximately \$250 from that bank prior to his employment by the Federal Reserve Bank of Atlanta. Accordingly, the Board's approval of the appointment of Mr. Snell is given with the understanding that he will not participate in any examination of The Fulton National Bank of Atlanta until all such indebtedness has been liquidated.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

