

Minutes for October 6, 1964

To: Members of the Board

From: Office of the Secretary

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

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

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

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

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, October 6, 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. Shepardson
Mr. Mitchell
Mr. Daane

Mr. Sherman, Secretary
Mr. Bakke, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Furth, Adviser, Division of International
Finance
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Thompson, Assistant Director, Division of
Examinations
Mr. Spencer, General Assistant, Office of the
Secretary
Mr. Via, Senior Attorney, Legal Division
Mr. Egertson, Supervisory Review Examiner,
Division of Examinations
Mr. Achor, Review Examiner, Division of
Examinations
Mr. Donovan, Review Examiner, Division of
Examinations
Mr. Lyon, Review Examiner, Division of
Examinations
Mr. Poundstone, Review Examiner, Division
of Examinations
Mr. Smith, Review Examiner, Division of
Examinations

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Call for condition reports. The heads of the three Federal bank supervisory agencies having selected the close of business October 1, 1964, as the date for the third call for reports of condition to be made by insured banks within the calendar year 1964, a telegram was sent to the Presidents of all Federal Reserve Banks on October 5, 1964, requesting that a call be made on State member banks on October 8, 1964, for reports of condition as of the close of business October 1, 1964, on forms transmitted with the Board's letter of September 29, 1964.

The sending of the telegram was ratified by unanimous vote.

Discount rates. The establishment without change by the Federal Reserve Bank of Minneapolis on October 5, 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.

Relocation of branch of Wells Fargo Bank (Item No. 1). Unanimous approval was given to a letter to Wells Fargo Bank, San Francisco, California, approving the relocation of a branch from First Street West and Napa Street, Sonoma, to West Napa Street and Fifth Street West. A copy of the letter is attached as Item No. 1.

Report on competitive factors (Hartford-Putnam, Connecticut). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Cargill Trust Company, Putnam, Connecticut, into Hartford National Bank and Trust Company, Hartford, Connecticut.

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The report, in which the conclusion read as follows, was approved unanimously for transmittal to the Comptroller:

There is virtually no competition between Hartford National Bank and Trust Company and The Cargill Trust Company. While consummation of the proposed merger would not substantially increase the resources of Hartford National nor significantly alter its competitive position in the areas it currently serves, it would expand its geographical coverage to an additional area in the State and expose the remaining local banks in Putnam to the competitive capabilities of a much larger bank.

International Banking Corporation. In accordance with the understanding reached at the Board meeting on September 2, 1964, there had been distributed a revised draft of reply to a letter of June 24, 1964, from Chairman James S. Rockefeller of First National City Bank, New York, New York, with regard to the agreement under which the bank's wholly-owned subsidiary, International Banking Corporation, was operating pursuant to section 25 of the Federal Reserve Act.

In Mr. Rockefeller's June 24 letter, he had expressed a desire to have the agreement revised in such a way as to place foreign subsidiaries of International Banking Corporation on an operating basis comparable to that of direct foreign branches of First National City Bank. In this connection, Mr. Rockefeller pointed out that International Banking Corporation's subsidiary, First National City Trust Company (Bahamas) Limited, Nassau, Bahamas, could extend a credit line to any one borrower equal to no more than 10 per cent of the capital and surplus of the Corporation, whereas a direct branch of First

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National City Bank could lend up to 10 per cent of the capital and surplus of the parent bank. Specifically, First National City Trust Company was limited to \$1,200,000 for a credit line to one borrower, as that amount was 10 per cent of the capital and surplus of International Banking Corporation. The particular matter that had given rise to the issue related to a loan arrangement with Pegasus Fund Ltd., a Bahamian company wholly owned by Socony Mobil Oil Co., Inc. The loan had been denominated in United States dollars, fully secured by hypothecation of dollars on deposit in First National City Trust Company (Bahamas) Limited.

The draft response discussed the outstanding agreement applicable to International Banking Corporation and indicated that it was being amended to conform to the terms of Regulation K, Corporations Engaged in Foreign Banking and Financing under the Federal Reserve Act, as revised effective September 1, 1963. The proposed letter also discussed conditions contained in consents granted the Corporation to acquire shares of certain foreign bank subsidiaries, in which connection there were presented for Board consideration two alternative paragraphs relating to transactions of First National City Trust Company (Bahamas) Limited with Pegasus Fund Ltd.

The first alternative would point out that no exclusion regarding loans, whether in local or foreign currency, was contained in the Board's letter of October 21, 1960, granting consent for

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International Banking Corporation to purchase and hold shares of First National City Trust Company (Bahamas) Limited, as First National City Bank also operated a direct branch in Nassau. It would then refer to the fact that, while the trust company in the Bahamas was limited to \$1,200,000 in United States currency for a loan to one borrower, the Board was agreeable to modifying its outstanding consent by suspending the provisions thereof so far as they related to restrictions on loans granted in the Bahamas in the currency of that country. While the loans that gave rise to the specific question raised in the letter of June 24 were not denominated in the currency of the Bahamas, but in United States dollars, they were fully secured by hypothecation of funds on deposit in the same currency in the trust company and represented no financial risk. Accordingly, the first alternative paragraph also would state that the Board interposed no objection to these particular loans.

The second alternative paragraph would simply state that no exclusion regarding loans, whether in local or foreign currency, was contained in the Board's letter of October 21, 1960, granting consent for International Banking Corporation to purchase and hold shares of First National City Trust Company (Bahamas) Limited, because First National City Bank operated a direct branch in Nassau.

At the Board's request, Mr. Solomon reviewed the matters discussed in Mr. Rockefeller's letter, following which he described the kind of response that was proposed.

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Mr. Goodman, commenting on the draft letter considered at the Board meeting on September 2, 1964, pointed out that a question had been raised then as to the nature of the loan made by the Bahamian trust company to Pegasus Fund. Upon an inquiry made of First National City Bank, a letter had been received from Mr. Walter B. Wriston, Executive Vice President, that stated: "In response to your request, I am happy to confirm my recollection about the sizeable loan made by the First National City Trust Company (Bahamas) Ltd. to a company connected with Socony. One of the officers in the Socony management in New York inquired whether or not the Trust Company could, in principle, handle such a transaction; i.e., a loan secured by cash. I told this inquirer that I knew of no reason why the Trust Company could not handle the transaction, but that the Managing Director of the Trust Company was in charge of this operation and the authority to make or decline the transaction lay with him in Nassau. If they wanted to pursue the matter they should have their representatives in Nassau get in touch with the Managing Director. I learned subsequently that the Trust Company had in fact made a loan, but I have no knowledge of the reasons which prompted Socony to negotiate the loan in Nassau but can only assume that a company of that stature and experience had a good business reason for so doing and that the Managing Director of the Trust Company felt that it furnished a profit-making opportunity on a safe banking basis." Mr. Goodman having quoted the

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letter, remarked that he was not certain whether the response satisfactorily answered the question that had been raised.

Mr. Solomon observed that a question of concern in this matter seemed to be one of possible tax avoidance or tax evasion by the borrower. He emphasized that while this aspect was only a possibility, if the Board should grant an exclusion on loans such as were involved in this case it might be facilitating tax evasion schemes. On the other hand, the Internal Revenue Service had authority to deal with such situations. For the Board to insist, because of a suspicion regarding the tax motives on the part of the borrower, on adherence to a provision in the consent that was designed only to insure the financial soundness of the lending institution seemed to be going fairly far afield in carrying out the Board's responsibilities. He commented further that the Board had not felt obliged to attempt regulation of the tax aspects of transactions engaged in by Edge corporations.

Governor Mills said that he shared Mr. Solomon's feelings. He did not believe that the Board should impugn the motives of either the lender or the borrower in loan transactions. He went on to indicate that he favored the use of the first alternative paragraph in the proposed letter to Mr. Rockefeller. However, it seemed to him that there was a broader issue involved. In his opinion, there should be a periodic review of the waivers granted to Edge and agreement corporations where the subsidiaries of such corporations were

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making loans in local currency, above the legal limits prescribed by the Board for dollar loans, to ascertain their soundness and solvency. As it now stood, the Board depended upon the parent bank to police the soundness of such loans. However, if the loans were not appropriate, they could affect the stability of the corporation. Thus, in the future, similar requests might be made by less stable corporations than the one in the present case, and the Board should review each case carefully to satisfy itself that the loans undertaken or proposed by the applicant were of a sound and solvent character.

As the discussion proceeded, Governor Mitchell commented that the issue before the Board was whether the resources of the parent bank should be the determinative factor in fixing the allowable lending limit for foreign subsidiaries or affiliates. The theory presently followed was that this should be the case where a foreign branch was involved or where, when because of local law a branch could not be established, the lender was an Edge or agreement corporation. In the instant case, however, the question presented was whether an ad hoc departure from this principle should be allowed in order to permit an agreement corporation to make a loan that an existing branch of the parent bank in the same locality could make, because of the security supporting the loan. To establish such a precedent would involve the Board in looking at every transaction where an exclusion was sought. It seemed preferable to him that the guidelines set by the Board

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should be of general application and not be directed toward specific transactions.

Governor Robertson, commenting on the draft of letter to Mr. Rockefeller, suggested certain changes to shorten the reply. Further, while he would not use the first alternative paragraph that had been suggested, he thought the second alternative approach could be used if it were changed to say that the Board deemed it inappropriate to grant an exclusion from the restrictions of Regulation K regarding loans, whether in local or foreign currencies, by First National City Trust Company (Bahamas) Limited, since the existence of First National City Bank's direct branch in Nassau seemed to render such an exclusion unnecessary.

Governor Shepardson remarked that he was not clear as to the reason for giving an exclusion in this case. If the direct branch of First National City Bank in Nassau could handle the loan, why should the bank feel it necessary to have an exception made as to the lending limit of the Bahamian trust company? In his view, the Board should accommodate and encourage the activities of foreign banking operations if it could do so within reasonable limits. In this case he was puzzled, however, and he did not think that he had an answer at the moment.

Mr. Goodman commented that it seemed likely First National City Bank wanted to provide banking services to the Islands through

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a Bahamian-chartered corporation. There were advantages--some of them tax advantages, no doubt.

Governor Mitchell again pointed out that the proposal before the Board was one that involved the relaxing of restrictions on a particular transaction, merely because of the type of security given for the loan. He reiterated his preference for guidelines not directed at specific transactions.

There followed further discussion with respect to the draft letter and to the approach that was being suggested in each alternative paragraph relating to transactions of First National City Trust Company (Bahamas) Limited with Pegasus Fund Ltd.

Mr. Furth observed that the matter involved two different questions. One question was whether the Board should grant a general exclusion on loans made in the currency of the host country. So far, the Board granted an exclusion only for subsidiaries located where no branch of the parent organization could be established. In his view, there was no reason why the Board should not approve an exclusion if the loans were made in the currency of the host country, on the basis that the subsidiary then could do whatever could be done if there was a direct branch.

The second question was with respect to loans made in U. S. dollars. The Board had not granted any Edge corporation subsidiary an exclusion on loans in U. S. dollars so far as he knew, Mr. Furth

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said. He was of the opinion there would be good reason not to do this, since such loans were part of the Euro-currency problem, which in itself was a difficult problem. Mr. Furth went on to note that when the staff had inquired of First National City Bank concerning the reason for the Pegasus loan, the response was that the management of the Bahamian trust company thought that it was profitable to make such a loan. In conclusion, it seemed to him that the question was whether the Board wished to grant an extraordinary exception, or to state in its letter that the justification for the Pegasus loan was not particularly convincing based on the information before the Board and that further facts would be needed before making a decision concerning the requested exclusion.

Governor Daane said that he would like to return to the question that had been raised by Governor Shepardson: Why was the loan not made through the direct branch? The only answer he could sense was that there might be some tax angle.

Governor Mills observed that the matter presented a practical banking problem; for example, if the Treasurer of Socony Mobil Oil Company went to the manager of the parent bank's branch in Nassau and asked him to make a loan secured by U. S. dollars, the manager would be impertinent to question the purpose of the loan.

Mr. Goodman then stated that he thought it should be borne in mind that Mr. Rockefeller had not raised a question about the loan to

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Pegasus Fund but had indicated only that International Banking Corporation would like to accomplish through its subsidiary what could be done through First National City Bank's branch in Nassau.

Governor Daane expressed the view that to accede to this request would open a virtual Pandora's box of problems because the Board would be inundated with similar requests.

In further discussion, Governor Balderston said that he found the first half of the draft letter acceptable to him. However, he was inclined toward pointing out that the whole question with respect to the conditions contained in the consents granted International Banking Corporation had not been presented clearly; in particular, the question of granting an exception on loans made by the Bahamian trust company. He would point out in the letter, as Mr. Goodman had suggested during discussion, that the Board had previously granted exceptions, in the case of loans made in the currency of the host countries, regarding transactions in Liberia, South Africa, and Canada. He felt, with respect to transactions of the Bahamian trust company, that since they were in dollars rather than the local currency of the Bahamas, the Board could take the position that such transactions did not conflict with the conditions in the Board's letter of October 21, 1960, and not raise any further question about the Pegasus loan.

Chairman Martin then suggested that the letter to Mr. Rockefeller be rewritten in light of the foregoing discussion, and it was understood

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that a revised draft would be prepared with a view to its consideration at the meeting of the Board tomorrow.

Mr. Poundstone then withdrew from the meeting.

Mercantile Trust Company (Item No. 2). There had been distributed a memorandum dated September 24, 1964, from the Legal Division presenting for consideration the question whether Mercantile Trust Company, St. Louis, Missouri, a State member bank, under the circumstances described therein, was operating unauthorized branches in contravention of section 9 of the Federal Reserve Act and section 5155 of the Revised Statutes.

As outlined in the memorandum, in June 1963 Mercantile Trust Company acquired the business of a mortgage company and the stock of certain other corporations. The Board informed the bank by letter of June 20, 1963, that (1) certain acquisitions of stock, as a part of the transaction, would violate section 5136 of the Revised Statutes, and (2) operation of the mortgage company's offices would violate section 9 of the Federal Reserve Act and section 5155 of the Revised Statutes relating to bank branches, since it appeared that such offices, under control of Mercantile Trust Company, would be engaged in making loans. Subsequently, the Board was advised by Mercantile Trust to the effect that the activities of the mortgage company (Mercantile Mortgage Company) were being reviewed to reach the ultimate objective of making loans only from the head office of the bank.

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The Legal Division concluded, for the reasons cited in its memorandum, that notwithstanding the institution of certain revised practices there had been no changes of substance in the operations of the mortgage company since the Board first considered the matter and that Mercantile Trust Company, by virtue of the business conducted through its mortgage company subsidiary, continued to be engaged in the operation of unauthorized branches in violation of the governing Federal laws relating to branch banking. A draft of letter to Mercantile Trust Company that would reflect this position was attached to the memorandum.

At the Board's request, Mr. Via reviewed the facts relating to the question presented and the reasoning that had led to the conclusion of the Legal Division, his comments being based substantially on the information given in the memorandum of September 24. At the conclusion of this review, Mr. Via suggested the addition of a sentence to the concluding paragraph of the proposed letter that would in effect say that it would be necessary for the mortgage company either to terminate its proscribed activities or to sever its affiliation with the bank.

In supplemental comments, Mr. Hackley observed that the bank and mortgage company possibly might change their current loan practices, although he was uncertain whether there was any satisfactory solution short of complete severance of the mortgage company from the operations

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of the bank. This case was one that had been made difficult by the fact that the branch offices of the mortgage company received loan applications, which applications were later sent to the head office of the bank for approval. However, he was convinced, on the basis of the reasoning presented in the Legal Division's memorandum and the court decisions cited, that the Board would be on solid ground if it were to take the position that such practices were prohibited. The possibility of litigation could not be ignored, he noted, and while he felt the Board's action would be upheld, it was difficult to predict with certainty the outcome.

With respect to legal sanctions that might be used in the event of continued violation of branch banking law, Mr. Hackley noted that the Board had the authority to institute proceedings for termination of membership or removal of directors or officers - a procedure that should be avoided if possible.

In the discussion that followed, Governor Mills said that he subscribed to the reasoning presented in the memorandum from the Legal Division. Accordingly, he was in favor of sending the proposed letter to Mercantile Trust Company with the additional sentence suggested by Mr. Via.

Governor Mitchell said that while he was not attempting to judge the validity of the legal arguments in this case, it seemed as though one could go in the direction of approving the practice. This

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caused him to wonder whether the posture suggested by the Legal Division was too conservative. Large banks today had representatives in various parts of the United States that handled loan transactions in a manner similar to that being questioned; bank representatives solicited and completed the terms of a loan, except that final approval was obtained from the head office. This practice was convenient for the customer and everyone concerned, and this type of transaction went unchallenged. A loan so transacted was equivalent, in his view, to the practice now engaged in by Mercantile Trust through its mortgage company subsidiary. As he saw it, the Board would be challenging a specialized service that conceivably was better for a community from the competitive standpoint than would be the operation of a branch banking office.

Governor Mills expressed the view that while it was true, for example, that New York City banks had representatives in Chicago, and Chicago banks had representatives in New York City, there was a distinction between contracting for a loan at a branch office of the mortgage company, as was done in the case now before the Board, and a situation where a bank's representative contacted a customer and handled arrangements for a loan, with the actual loan instrument being handled at the head office of the bank. The latter situation, in his view, could not be construed as branch banking.

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Governor Mitchell reiterated that he thought the essence of a loan transaction was accomplished where a bank's representative called upon a customer and completed the details, even though final approval for the loan was given at the main banking office.

As discussion proceeded, Governor Robertson commented that if a practice like the one in question were permitted, any bank might acquire a corporation with field offices and through them make loans, with formal approval for such loans given at the head office of the bank. This would then open the door, in effect, to nation-wide branch banking by use of such methods, a result that he believed would be wholly undesirable.

Governor Balderston expressed the view that since Federal statutes accorded deference to those States that wished to prohibit bank branching within their borders, it was incumbent upon the Board, in its regulatory rulings, to uphold the intent of Congress that State branch banking laws should be recognized as controlling.

At the conclusion of further discussion, it was the view of the majority of the Board that continuation of the loan activities engaged in by the branch offices of Mercantile Mortgage Company would constitute a violation of section 9 of the Federal Reserve Act and section 5155 of the Revised Statutes. Thereupon, approval was given to the sending of the proposed letter to Mercantile Trust Company that would reflect this position. Governor Mitchell dissented from

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this action. A copy of the letter, in the form approved for transmittal, is attached as Item No. 2.

Mr. Goodman then withdrew from the meeting.

Application of State Bank of Albany. There had been distributed a memorandum from the Division of Examinations dated September 22, 1964, and supporting papers with respect to the application by State Bank of Albany, Albany, New York, to merge with The First National Bank of Cairo, Cairo, New York. As indicated in the memorandum, all reports on competitive factors from the other agencies had been in adverse terms. The Division's recommendation was favorable.

At the Board's request, Mr. Leavitt reviewed the facts of the case, the competitive factor reports received from the other Federal bank supervisory agencies and the Department of Justice, and the reasons underlying the favorable recommendation of the Division of Examinations, his comments being based on the material that had been distributed.

Following Mr. Leavitt's comments, the members of the Board expressed their views.

Governor Mills stated that he would approve the merger for the reasons cited by the Division of Examinations. To those reasons he would add in support of the application the character of the area in which Cairo was located. Apart from the rather unstable recreational forms of business in the community, it was an area in which

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the total of business, agriculture, and industry was not much above the subsistence level. This factor was true of the larger part of the Fourth Banking District of New York, other than the prosperous Unadilla area. In his way of thinking, Governor Mills said, the expansion of State Bank of Albany into the Cairo area would bring stimulating influences that could be helpful to what was almost a decadent area.

Governor Robertson said that he would deny the application and use as a basis for doing so the competitive factor reports submitted to the Board by the other bank supervisory agencies and the Department of Justice, which reports had been in adverse terms. Also as a basis for disapproval, he said that he would quote an excerpt from the statement issued on April 26, 1963, in connection with the Board's order denying the application of State Bank of Albany to merge with The Unadilla National Bank, Unadilla, New York. Governor Robertson read the passage in question, inserting the name and location of the Cairo bank to adapt the statement to the present application:

"If approved, this merger would replace the only bank in Unadilla (Cairo) with a branch of one of the two largest banks in the Fourth Banking District of New York having its main office 100 (40) miles away, and would constitute one more step in a significant series of bank absorptions by State Bank. There is no substantial evidence that the banking needs or convenience of the Unadilla (Cairo) area are not being served adequately, or that Unadilla National (Cairo National) cannot continue its operations profitably.

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"Any benefits that might accrue to the public as a consequence of the merger would be more than offset in the circumstances of this case by the increase in the size of the largest bank in the Fourth Banking District of New York, by the increase in the already high concentration of banking resources in that District, and by the adverse potential effect on banking competition in Unadilla (Cairo) and the surrounding area."

Speaking of the similarity between the Unadilla case and the one now before the Board, Governor Robertson said that both the Unadilla bank and Cairo National were sound, growing, and profitable banks with satisfactory prospects. He felt that for purposes of making a decision the situations were indistinguishable, except that Cairo was a resort community. He went on to say that in the Unadilla case the bank involved was also one that served primarily an agricultural area. There, the Board had been of the view that the credit facilities in the farming community were adequate. In the Cairo area, there was no industry and little commercial activity. He contended, therefore, that the agricultural credit needs of an area such as Unadilla were greater than those of a resort area, or at least equally important from an economic point of view. In the present case it had been alleged that there was substantial need for a larger lending limit on the part of Cairo National. He questioned this, as there was only one loan participated by Cairo National in 1963 because of its low lending limit. On the other hand, it had been contended that there was some risk involved in the kind of loans made in a resort area because of the nature of business in the community. He

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agreed with this, because the risk involved was much greater, especially where people were not in the community all year.

Governor Robertson added that the only other basis he could find for differentiating the present case from the Unadilla one was the distance between the banking offices. In this case, the distance was about three miles from Cairo National to the nearest banking office; in the Unadilla situation, the proximity was around nine miles. However, he did not think this was a significant factor. If the Board approved the application, Governor Robertson felt that its action would conflict with the position taken in the Unadilla case; further, approval would be contrary to the adverse reports of the other bank supervisory agencies and the Department of Justice.

Governor Shepardson said that he concurred with the recommendation of the Division of Examinations. He thought there was some difference between the Unadilla area and that of Cairo, especially as to the nature of their credit requirements. It was true that in the Unadilla area the agricultural credit needs were expanding. However, those needs were being met.

Governor Mitchell said that he would approve the application, but not for the reasons that had been advanced thus far. He would approve because State Bank was entering an area where it otherwise was prohibited because of the home office protection rule of New York State law. Further, he did not believe that the minor increase in the

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size of State Bank, through merger with Cairo National, could be used as reason for preventing it entering an area where it might do some good. In his view, the merger of the Cairo bank into State Bank would not be detrimental to competition, and added to this was the factor that Cairo National apparently wanted to get out of business. Also, he observed that the mere increase in size of a bank through merger did not necessarily lead to increased concentration or diminution of competition; rather, these consequences were contingent upon the general competitive situation. He foresaw no cause for alarm in this regard in the instant case. For these reasons, he would approve the merger.

Governor Daane stated that he would approve for the reasons that had been cited by the Division of Examinations. He thought that the public interest would be served in terms of a wider range of service and greater credit availability, the need for which had been demonstrated to his satisfaction.

Governor Balderston said that he concurred with the recommendation of the Division of Examinations and would approve the application. To the reasons given for approval by the Division, he would add the reason advanced by Governor Mills with respect to the economic conditions that existed in the community. As Cairo National was located in a resort area where there were seasonal fluctuations in business, it was more difficult for a relatively small bank to handle the credit needs than would be true of a larger institution.

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Chairman Martin commented that he was familiar with the area in this case and thought that "decadent" was an appropriate word as used by Governor Mills to describe the economic situation there. Since he was of the opinion that any steps possible to stimulate the local economy would be in the public interest, he would approve the application.

The application by State Bank of Albany to merge with The First National Bank of Cairo was thereupon approved, Governor Robertson dissenting. It was understood that the Legal Division would prepare for the Board's consideration a draft of an order and statement reflecting this decision, and that a statement reflecting Governor Robertson's dissent also would be prepared.

All of the members of the staff except Mr. Sherman withdrew at this point.

Travel request for Mr. Robert Solomon. Governor Shepardson stated that he had received a foreign travel request for Mr. Robert Solomon, Associate Adviser, Division of Research and Statistics, to attend a meeting of the study committee associated with the Group of Ten to be held in Rome, Italy, from October 22 through October 30, 1964, and that he would recommend that the Board approve the request. He went on to say that it was expected that Mr. Solomon would be called upon to attend overseas meetings of this study group periodically during the next year and that it would be his recommendation that the

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member of the Board having the assignment for the direction at the Board level of its internal administrative affairs be authorized to approve requests for foreign travel for Mr. Solomon for attendance at these meetings. Governor Shepardson's recommendations were approved unanimously.

ABA committee on uniform bank accounting. Governor Robertson referred to the comments he had made at the meeting of the Board on October 1, 1964, regarding the formation of a committee of the American Bankers Association to look into the question of uniform bank accounting. He stated that he had now been informed that the proposed committee had been designated by President Kelly of the American Bankers Association with the following members: Edward T. Shipley, Comptroller, Wachovia Bank and Trust Company, Winston-Salem, Chairman; G. Edward Cooper, Executive Vice President, Philadelphia National Bank; Frederic A. Curtis, Vice President and Comptroller, Continental Illinois National Bank and Trust Company, Chicago; Frank L. King, Chairman, United California Bank, Los Angeles; Colin MacLennan, Vice President and Controller, Manufacturers Hanover Trust Company, New York; and Max C. Deitrick, Director, Bank Management Committee, the American Bankers Association, New York, Secretary.

Extension of date for comments on proposed Regulation F (Item No. 3). Chairman Martin reported that he had received a request from Mr. Henry C. Alexander, Chairman of Morgan Guaranty Trust Company,

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New York, for an extension of time within which banks might submit comments on the Board's proposed regulation relating to securities of member State banks and form for registration. The date for submission of such comments now was fixed at October 21, 1964, and Chairman Martin stated that in view of the request of Mr. Alexander and others, he would be disposed to extend the time for such comments for a period of approximately 30 days.

There being concurrence in Chairman Martin's suggestion, an extension until November 23, 1964, of the date for submission of comments was approved unanimously. A copy of the notice filed with the Federal Register under date of October 6, 1964, is attached as Item No. 3.

The meeting then adjourned.

Secretary's Notes: On the basis of memoranda from the Office of the Controller and the Division of Bank Operations dated October 2, 1964, and September 30, 1964, respectively, Governor Shepardson approved on behalf of the Board on October 5, 1964, the transfer of two Clerk-Stenographer positions in the Division of Bank Operations to the Administration Section in that Division.

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

Letter to the Federal Reserve Bank of Atlanta (attached Item No. 4) approving the designation of five employees as special assistant examiners.

Letter to the Federal Reserve Bank of New York (attached Item No. 5) regarding arrangements whereby Robert Ritchie, a Senior Examiner for the Bank, would be assigned to the Board's Division of Examinations for a period of approximately three months beginning October 13, 1964.

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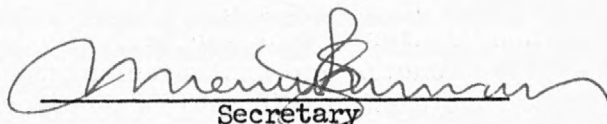
Memoranda recommending the following actions relating to the Board's staff:

Appointment

Maryanne D. O'Brien as Economist, Division of Data Processing, with basic annual salary at the rate of \$7,050, effective the date of entrance upon duty.

Transfer

Robert Solodow, from the position of Economist in the Division of Data Processing to the position of Economist in the Division of Research and Statistics, with no change in basic annual salary at the rate of \$7,220, effective October 6, 1964. (Dual occupancy of the position in the Division of Research and Statistics authorized until about December 31, 1964.)


Secretary



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

3407

Item No. 1
10/6/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 6, 1964.

Board of Directors,
Wells Fargo Bank,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the relocation of a branch by Wells Fargo Bank from First Street West and Napa Street, Sonoma, California, to the northeast corner of West Napa Street and Fifth Street West, Sonoma, provided the branch in the latter location is established within one year from the date of this letter and operations at the bank's existing office located at First Street West and Napa Street are discontinued simultaneously with the opening of the office at West Napa Street and Fifth Street West.

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 for relocation of 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. 2
10/6/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 6, 1964.

Mr. John Fox, President,
Mercantile Trust Company,
St. Louis, Missouri.

Dear Mr. Fox:

In its letter of June 20, 1963, the Board of Governors informed your bank that the activities of its wholly-owned subsidiary, Mercantile Mortgage Company, in making loans at its various offices in Missouri and in other States would constitute the operation of branches within the meaning of section 9 of the Federal Reserve Act (12 U.S.C. 321) and section 5155 of the Revised Statutes (12 U.S.C. 36). By letters dated June 21 and July 12, 1963, Mr. Cravens advised the Board that the activities of Mercantile Mortgage were being reviewed "to reach its ultimate objective of making loans only from 721 Locust Street" in St. Louis. The Board has reviewed the facts concerning the operations of Mercantile Mortgage as set forth in Mr. Cravens' letter of August 5, 1963, and as supplemented by your subsequent discussions with a representative of the St. Louis Reserve Bank.

It appears that the various field offices of Mercantile Mortgage solicit applications for loans (as well as paper evidencing indebtedness for loans made by other lenders), make the necessary credit investigations, appraise the value of the property offered as security, prepare the requisite documents and, except as noted hereinafter, complete all of the steps involved in the making of loans (or in the purchase of loan paper, as the case may be). These offices also "service" such loans for the various investors to whom Mercantile Mortgage sells the attendant paper.

It also appears that, in the past, transactions involving construction loans and home improvement loans, whether the loans were made directly or the paper purchased from dealers, have been consummated by the field offices which have issued the necessary checks on Mercantile Trust and then forwarded the documents to Mercantile Mortgage at 721 Locust Street. However, it is understood that Mercantile Mortgage has changed its procedure in such cases (except for the purchase of home improvement loan paper) in that checks are now issued by the home office.

Mr. John Fox

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It appears further that, in the case of real property purchase money loan applications, the field offices, after completing every prior step in the process, send the documents to Mercantile Mortgage at 721 Locust Street for approval. Following the receipt of approval from the main office, the field offices formerly issued a check on Mercantile Trust for the loan proceeds. However, the disbursement of funds for these loans, also, is now made by check from the office at 721 Locust Street. After the transaction is closed, the title company returns the note and mortgage (copies of which are retained by the field office together with the originals of other related documents) to Mercantile Mortgage at 721 Locust Street.

Service charges and other amounts which may be due (e.g., deposits to escrow accounts, accrued interest), are paid by the title company to the field office by check which the field office then deposits by mail to the account of Mercantile Mortgage at Mercantile Trust. Each field office prepares data concerning the nature and quality of the loans it generates (or the paper it purchases), which data is submitted by Mercantile Mortgage to prospective investors who communicate their acceptance or rejection to the field office concerned but who remit, in the case of acceptance, to Mercantile Mortgage at 721 Locust Street.

The office in Clayton, Missouri, in addition to performing functions similar to those performed by the other field offices, is responsible for certain accounting, general record keeping, and administrative duties pertaining to the over-all operation of the business of Mercantile Mortgage. Payments on loans normally are sent directly by the borrowers, by mail, to the Clayton office and are forwarded by it to Mercantile Trust for deposit to the account of Mercantile Mortgage. The Clayton office furnishes to each field office at regular intervals tabulations reflecting the status of, and the activity with respect to, the accounts generated by such field office, and maintains a representative at each field office who is responsible for handling delinquent accounts. Payments for taxes and insurance (out of escrow accounts established in conjunction with the loans "serviced") and payments to investors are made from the Clayton office by checks drawn on Mercantile Trust.

The principal change effected in the operations of Mercantile Mortgage since the Board first considered the matter is that, currently, the home office usually issues the checks attendant upon the transactions (except purchases of home improvement loan paper) generated by the field offices.

Mr. John Fox

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In the judgment of the Board, an office through which loan paper is purchased, or at which loan transactions are initiated, the terms of loans negotiated, and other steps that lead to completed loan transactions are carried on by a member bank, or its wholly-owned subsidiary, is a branch within the purview of section 9 of the Federal Reserve Act and section 5155 of the Revised Statutes. The facts that final approval of loans arranged at other offices emanates from the home office and checks for the proceeds of the loans, or for the purchase of loan paper, are issued from that office are not controlling for this purpose, in view of the objectives of the cited statutes. For the same reason, the fact that, for purposes of contract law, a loan may be regarded as "made" at the place and time of legal "acceptance" or "approval" does not govern the interpretation of these Federal bank regulatory statutes. If the contrary position were taken, member banks would be free to conduct their operations at numerous locations not authorized by the branch banking laws, by the simple device of providing for one step in each transaction to take place at the authorized office of the bank. Such a position could nullify the legislative purpose to regulate the locations at which the operations of member banks may be conducted.

For these reasons, the Board has concluded that continued operation of the separate offices of Mercantile Mortgage, as described above, would violate the governing Federal laws relating to branch banking. Therefore, it will be necessary either for Mercantile Mortgage to terminate the proscribed activities or for the affiliation between Mercantile Trust and Mercantile Mortgage to be severed.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

FEDERAL RESERVE SYSTEM

Item No. 3

10/6/64

[12 CFR Part 206]

[Reg. F]

SECURITIES OF MEMBER STATE BANKS

Notice of Proposed Rule Making

The Board of Governors of the Federal Reserve System announced on August 21, 1964, that it was considering the adoption of a new Part 206 (Regulation F) to be issued pursuant to authority contained in the Securities Exchange Act of 1934 (15 U.S.C. 78). Notice of Proposed Rule Making with respect to § 206.1 through § 206.5 was published in the Federal Register of August 26, 1964 (29 F. R. 12127). Notice of Proposed Rule Making with respect to § 206.6 and § 206.7 was published in the Federal Register of September 15, 1964 (29 F. R. 12926), and interested persons were invited to submit relevant data, views, or arguments with respect to the entire new Part on or before October 21, 1964.

The Board considers that an extension of time during which such materials may be submitted would be in the public interest. Accordingly, such materials may be submitted to the Secretary, Board of Governors of the Federal Reserve System,

Washington, D. C. 20551, to be received not later than
November 23, 1964.

Dated at Washington, D. C., this 6th day of October, 1964.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



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

3413
Item No. 4
10/6/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 6, 1964.

Mr. George W. Sheffer, Jr.,
Chief Examiner and Assistant Vice President,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia. 30303

Dear Mr. Sheffer:

In accordance with the request contained in your letter of October 1, 1964, the Board approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of Atlanta for the purpose of participating in examinations of State member banks:

Jack H. Falletta Morris G. Toliver
Robert M. Reeves Frank D. Young
James Duncan Shi, III

Appropriate notations have been made on our records of the names to be deleted from the list of special assistant examiners.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 5
10/6/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 6, 1964.

Mr. Alfred Hayes,
President,
Federal Reserve Bank of New York,
New York, New York 10045.

Dear Mr. Hayes:

In accordance with the tentative arrangements made with officers of the Bank Examinations Department of the Federal Reserve Bank of New York by the Board's Division of Examinations, it is understood that your Bank will make available, for a period of approximately three months, beginning October 13, 1964, the services of Mr. Robert Ritchie, a Senior Examiner for the Federal Reserve Bank of New York. While in Washington, Mr. Ritchie will be assigned to the foreign banking section of the Board's Division of Examinations, but it is also hoped he will have an opportunity to become generally familiar with the work of the Division as a whole and to visit other divisions of the Board. While in Washington, Mr. Ritchie will be designated as a Federal Reserve Examiner.

It is understood that the Federal Reserve Bank of New York will absorb all of Mr. Ritchie's salary and travel expenses in connection with the assignment.

The Board of Governors appreciates the cooperation of your Bank in making the services of Mr. Ritchie available during this period.

Very truly yours,

Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

