Minutes for October 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
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. Mitchell
Gov. Daane
Minutes of the Board of Governors of the Federal Reserve System

on Monday, October 12, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Robertson
Mr. Shepardson
Mr. Mitchell

Mr. Sherman, Secretary
Miss Carmichael, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Sammons, Adviser, Division of International Finance
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Thompson, Assistant Director, Division of Examinations
Miss Hart, Senior Attorney, Legal Division
Mr. Via, Senior Attorney, Legal Division
Mr. Harris, Assistant Review Examiner, Division of Examinations
Miss McShane, Assistant Review Examiner, Division of Examinations
Mr. Noory, Assistant Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on October 9, 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.

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

Telegram to the Federal Reserve Bank of New York approving an extension of the arrangement to make a loan or loans on gold to the Bank for International Settlements.
Letter to Bank of Ripley, Ripley, Tennessee, approving an investment in bank premises.

Letter to Rochester TV Rentals, Inc., Rochester, Minnesota, granting a determination exempting it from all holding company affiliate requirements except those contained in section 23A of the Federal Reserve Act.

Messrs. Sammons, Thompson, Via, and Noory then withdrew from the meeting.

Report on competitive factors (Jackson-Homer, Michigan). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of City Bank and Trust Company, National Association, Jackson, Michigan, and Calhoun State Bank, Homer, Michigan.

After discussion of facts relating to the proposed consolidation, and in the light of suggestions made, the report was approved for transmittal to the Comptroller in a form containing the following conclusion:

It was on the grounds of competitive factors that on May 14, 1964, the Board of Governors denied an application to consolidate City Bank and Trust Company (now City Bank and Trust Company, National Association), Jackson, Michigan, and Calhoun State Bank, Homer, Michigan. At that time it was determined that consummation of the proposed consolidation would add to the already substantial concentration of banking resources in the area served by the two participating banks, and there would be eliminated a sound, independent bank in a growing area with an accompanying elimination of such direct and potential competition as presently exists between Calhoun Bank and City Bank's Albion branch. It also was noted that, in substituting a branch of City Bank for one of the relatively few alternative banking sources in the area served by Calhoun Bank, there would result a further accentuation of the pattern...
of geographic placement of banking offices of the two dominant banks in the area whereby City Bank is tending to cluster its out-of-town branches generally to the west or southwest of Jackson, and the area's other leading bank is tending to place its out-of-town branches to the east or southeast of that city.

The area served by the subject banks as indicated in the present application is markedly broader than that defined in the previous application. Despite differences in the data submitted, there is no evidence to indicate that any change has taken place in the overall competitive situation, and the competitive factors involved in the proposed consolidation continue clearly adverse.

Report on competitive factors (Houston, Texas). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of Tennessee Bank and Trust Company, Houston, Texas, with Houston National Bank, Houston, Texas.

After discussion, the report was approved unanimously for transmittal to the Comptroller. The conclusion read as follows:

While consummation of a merger between Houston National Bank and Tennessee Bank and Trust Company would eliminate some existing competition and potential for more competition between the two banks, it might stimulate competition among the larger banks without unfavorable competitive effects on smaller banks. Numerous alternative banking facilities would remain available in the Houston area, and the overall effect of the proposed transaction on competition would not be significantly adverse.

Proposal to purchase controlling interest in securities firm (Item No. 4). In a letter to the Federal Reserve Bank of Kansas City dated July 27, 1964, the Board held that a proposal by which Mr. Charles E.
James, Chairman of the Board of First National Bank, Liberty, Missouri, would have exchanged more than 200 of his shares in First National for a controlling interest in Prescott, Wright & Snider Company, Kansas City, Missouri, a member of the Midwest Stock Exchange, would violate section 20 of the Banking Act of 1933. Subsequently Mr. James submitted a new proposal under which he would sell for cash a block of shares in First National Bank to Selected Financial Plans, Inc., a wholly-owned securities subsidiary of Prescott, Wright & Snider Company, and inquired whether this proposal would be considered a violation of the Banking Act of 1933.

As pointed out in a distributed memorandum from the Legal Division dated October 7, 1964, the affiliation of a member bank and a securities company through common ownership or control of a majority of the stock in each is prohibited by section 20. Mr. James owned only a minority of the shares of First National Bank but, since these shares were part of a voting trust that controlled a majority of First National stock, and he controlled the trust, he was the controlling shareholder in the bank.

Under the original proposal, Mr. James would have controlled Prescott, Wright & Snider Company and Selected Financial Plans, Inc., a combined enterprise that the Board held to be principally engaged in the activities described in section 20, and he would have continued to control First National through his control of Prescott Company, whose subsidiary would have voted a majority of the shares in the voting trust. Thus, Prescott and Selected would both have been affiliates of First National, a status forbidden by section 20.
Under the new proposal now before the Board, Mr. James would sell 208-1/2 shares of the member bank stock, subject to the voting trust, to Selected Financial Plans, receiving in return cash or other consideration but no stock in either Prescott or Selected. On the basis of the facts presented under the new proposal it would appear to be impossible for First National and Prescott to come under common control and, accordingly, the Legal Division concluded that the proposal would not violate the prohibitions of section 20.

Attached to the memorandum was a proposed letter to the Federal Reserve Bank of Kansas City reflecting this conclusion. The letter would also call attention to the fact that section 32 of the Banking Act of 1933 would prohibit any interlocking relationship between the member bank and Prescott or Selected.

At the Board's invitation Miss Hart commented on the new proposal and pointed out the ways in which it differed from the one that had been considered by the Board on July 27, 1964.

Governor Robertson stated that while he did not favor this type of arrangement, he did not see how the Board could come to any conclusion other than that reached by the Legal Division. Accordingly, he would favor sending the proposed letter.

There being general agreement with this view, the letter to the Federal Reserve Bank of Kansas City was approved unanimously, with the understanding that a copy would be sent to the Comptroller of the Currency for information since a national bank was involved. A copy of the letter to the Reserve Bank is attached as Item No. 4.
The meeting then adjourned.

Secretary's Notes: The requirements contemplated by the Board's action on September 16, 1964, in approving the issuance of a preliminary permit to Crocker-Citizens International Corporation, San Francisco, California, having been completed, a letter was sent today to that corporation transmitting a final permit to commence business.

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

Letters to the American Telephone and Telegraph Company and General Services Administration (attached Items 5 and 6) authorizing them to proceed with certain changes in the Federal Reserve 81-D-1 Leased Wire System, thus implementing the authorization given by the Conference of Presidents of the Federal Reserve Banks at its meeting on September 28, 1964, for improvements in the Leased Wire System. Copies of the letters were sent to the Presidents of all Federal Reserve Banks.

Memorandum from the Division of Data Processing dated September 14, 1964, recommending that an additional Headliner Photo Composing Machine, Model 840, be purchased at a cost of $1,435 for immediate use in the Economic Graphics Section of that Division.

Memorandum from the Division of Data Processing dated October 7, 1964, requesting authorization to overexpend its Contractual Professional Services account an additional $2,500 for outside graphic work.

Memorandum from the Division of Research and Statistics dated October 7, 1964, recommending the reappointment of Winthrop Case on a temporary contractual basis effective to December 31, 1964, to assist the Economic Editing Unit in that Division, with compensation at the rate of $55 per day and transportation expenses and per diem for time spent in travel status to be paid in accordance with the Board's travel regulations. For purposes of travel, Mr. Case's headquarters would be New York City. It was understood that Board payment of transportation expenses would be limited to the necessary round trip from New York, plus additional round trips not to exceed one per month while on duty in Washington. It was expected that Mr. Case would work from about October 15 to November 25.

Memorandum from Levon H. Garabedian, General Assistant, Division of Research and Statistics, requesting permission to grade papers at American University.

[Signature] Secretary
SANFORD - NEW YORK

Your wire October 1. Board approves extension of the arrangement to make loan or loans on gold by your Bank to the Bank for International Settlements during the period of one year, from November 1, 1964, through October 31, 1965, up to a total amount outstanding at any one time of $25 million, each borrowing to mature in not more than seven days and total borrowings (the maximum loan facility) during any calendar month not to exceed the equivalent of $25 million for the total of seven days.

For this facility, it is understood that you will make a commitment charge at the rate of one-fourth of one per cent per annum on that part of the maximum loan facility not used in any calendar month. The arrangement would conform to your usual terms and conditions:

(a) Each such loan or loans to be made up to 98 per cent of the value of gold bars to be set aside at the time of each drawing under pledge to you;

(b) Each such loan to bear interest from the date it is made until paid at the discount rate of your Bank in effect on the date such loan is made.

It is understood that the usual participation will be offered to the other Federal Reserve Banks.

(Signed) Merritt Sherman

SHERMAN
Board of Directors,
Bank of Ripley,
Ripley, Tennessee.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an investment of not to exceed $95,000 in bank premises by Bank of Ripley, Ripley, Tennessee, for the expansion and remodeling of banking quarters.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.
Mr. Richard H. Plunkett,
Rochester TV Rentals, Inc.,
Rochester, Minnesota.

Dear Mr. Plunkett:

This refers to the request contained in your letter of May 13, 1964, submitted through the Federal Reserve Bank of Minneapolis, for a determination by the Board of Governors of the Federal Reserve System as to the status of Rochester TV Rentals, Inc., as a holding company affiliate.

From the information presented, the Board understands that the object and purpose of Rochester TV Rentals, Inc., is to construct and maintain a closed circuit TV system and TV rentals for use in all Rochester, Minnesota, hospitals; that it is a holding company affiliate by reason of the fact that it owns 965.68 (53.6 per cent) of the 1,800 outstanding shares of stock of Oakdale State Bank, Owatonna, Minnesota; 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 Rochester TV Rentals, Inc., 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. Richard H. Plunkett

If, however, the facts should at any time indicate that Rochester TV Rentals, Inc., 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, including additional acquisitions of bank stocks even though not constituting control.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.
Mr. George D. Royer, Jr., Vice President,  
Federal Reserve Bank of Kansas City,  
Kansas City, Missouri. 64106

Dear Mr. Royer:

This refers to your letter of September 3, 1964, enclosing a letter of September 2, 1964, from Mr. Charles E. James, Chairman, First National Bank, Liberty, Missouri ("First"), in which Mr. James requested an interpretation of the Board on the question whether a proposed new plan for the sale of some of his shares in First to Selected Financial Plans, Inc. ("Selected"), a wholly-owned subsidiary of Prescott, Wright & Snider Company ("Prescott"), would be in violation of the Banking Act of 1933 ("the Act"). Further information concerning the proposal was supplied by your letter of September 25, 1964.

In its letter to you of July 27, 1964, the Board concluded that a previous plan under which Mr. James would have exchanged more than 200 of his shares in First for a controlling interest in Prescott would have violated the prohibition of section 20 of the Act. This result followed from the fact that, while Mr. James and his wife and son together own less than 50 per cent of the outstanding shares of First, their shares, together with enough stock owned by two other persons to make up 279-1/2 of the 500 outstanding shares of the bank's stock, are deposited in an irrevocable voting trust, and Mr. James himself owns more than half the stock in the trust, which is controlled, under its terms, by a majority of the shares it covers.

Section 20 of the Act provides that:

"... no member bank shall be affiliated in any manner described in section 2(b) hereof with any corporation, association, business trust, or other similar organization engaged principally in the issue, flotation, underwriting, public sale, or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes, or other securities . . . ." (Underscoring supplied)
and section 2(b) provides that:

"(b) Except where otherwise specifically provided, the term 'affiliate' shall include any corporation, business trust, association, or other similar organization . . . (2) Of which control is held, directly or indirectly, through stock ownership or in any other manner, by the shareholders of a member bank who own or control either a majority of the shares of such bank or more than 50 per centum of the number of shares voted for the election of directors of such bank at the preceding election, or by trustees for the benefit of the shareholders of any such bank; . . . ."

Under the original proposal, Mr. James would have controlled Prescott and Selected, a combined enterprise which the Board held to be "principally" engaged in the activities described in section 20, and would have continued to control First through his control of Prescott, whose subsidiary, Selected, would have voted a majority of the shares in the voting trust. Accordingly, Prescott and Selected would have been "affiliates" of First, a status forbidden by section 20.

Under the new proposal, the Board understands that Mr. James would sell 208-1/2 shares of First stock, subject to the voting trust, to Selected, receiving in return cash or other consideration, but not stock in Prescott or Selected. Further, Mr. James and his wife and son would undertake that they would not acquire or hold, now or in the future, any such stock. From the information submitted, it is understood also that, as a condition to the sale, Prescott and Selected would agree to give irrevocable proxies to vote the acquired First stock to Mr. James, and if he should die, to his son, Mr. C. Gerald James, and if he should die or prove unwilling to serve, to successors who would be completely independent of Prescott and Selected. The voting trust contract, a copy of which was enclosed with your letter of September 25, 1964, makes no provision for the possibility that Mr. Charles E. James might prove unable or unwilling to serve as voting trustee, or that his son, Mr. C. Gerald James, might prove unable to serve. It is assumed that if any of these contingencies were to occur, the office of trustee, under applicable local law, would vest in the named successor, and the Board's conclusion expressed in this letter is based on that assumption. If the assumption is not correct, a different conclusion might be indicated.
Under the facts and assumptions just stated, it is apparent that neither Prescott nor Selected would be affiliates of First within the meaning of section 2(b) of the Act. This is true because the James' interests would not own or control any stock in either Prescott or Selected, and because the single shareholder of Selected, i.e., Prescott, would not own or control a majority of the stock of First. Accordingly, the Board is of the opinion that the proposal would not result in a violation of section 20 of the Banking Act of 1933.

The Board would wish to call attention, however, to the fact that section 32 of the Act forbids certain interlocking relationships between member banks and firms which are "primarily" engaged in the activities described in that section, i.e., the "issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation of stocks, bonds, or other similar securities . . .". The activities described in section 32 do not differ materially, for the purposes of the question before the Board, from those described in section 20, and a firm which is engaged "principally" in the latter activities is a fortiori engaged "primarily" in activities described in section 32. Hence section 32 would continue to forbid any interlocking service as officer, director, or employee of First, and of Prescott or Selected. In addition, since section 2(b) refers to affiliation through ownership or control of stock, First should be advised that any acquisition by Prescott or Selected of a beneficial interest in 50 per cent or more of the outstanding shares of First (or more than half the shares of First which were voted for the election of directors at the preceding election) would render First liable to the penalties prescribed in section 20.

It would be appreciated if you would transmit the enclosed copy of this letter to Mr. James.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure
Mr. H. E. West, Jr.,
Account Manager,
Long Lines Department,
American Telephone and Telegraph Company,
1725 K Street, N. W.,
Washington, D. C.  20006

Dear Mr. West:

You are hereby authorized to proceed with the installation in the Federal Reserve Leased Wire System of two new circuits from Washington, D. C., to Richmond, Virginia, in accordance with Plan III, submitted in your letter of August 20, 1964 to Mr. Joseph E. Kelleher, Director, Division of Administrative Services.

It is understood that the cost of this new equipment is to be as follows:

**Rental of Equipment**

- **Two new circuits - Washington, D. C., to Richmond, Va.**

  **Equipment Required Treasury**

  - **2 #15RO Teletypewriters**
    - Cost: $70.00
  - **1 #19ASR Teletypewriter**
    - Cost: $80.00

  **Equipment Required Federal Reserve**

  - **Upgrade 2 Duplex Terminations at Switching Center to active**
    - Cost: $150.00

We have authorized the General Services Administration to effect a TELPAK application to the above circuitry and they will advise you accordingly.
It is understood that there may be a change in the above rates due to a change in the tariff effected after submission of your letter of August 20, 1964.

Very truly yours,

Merritt Sherman,
Secretary.
Mr. Lloyd Bond, Assistant Commissioner for Communications, General Services Administration, 19th and F Streets, N.W., Washington, D.C.

Dear Mr. Bond:

You are hereby authorized to effect a TELPAK application to the Federal Reserve 81-D-1 Leased Wire System by the addition of two teletype channels between the Main Treasury Building in Washington, D.C., and the Federal Reserve Bank of Richmond, Richmond, Virginia.

This application has been previously discussed with Mr. Hartzler of your office.

A requisition for the equipment changes involved has been submitted to American Telephone and Telegraph Company by way of Mr. H. E. West, Jr., Account Manager. Please advise Mr. West of the TELPAK configuration.

Very truly yours,

Merritt Sherman,
Secretary.