Minutes for October 26, 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 26, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Shepardson
Mr. Mitchell
Mr. Daane

Mr. Sherman, Secretary
Miss Carmichael, Assistant Secretary
Mr. Young, Adviser to the Board and Director, Division of International Finance
Mr. Molony, Assistant to the Board
Mr. Solomon, Director, Division of Examinations
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Sammons, Adviser, Division of International Finance
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Young, Senior Attorney, Legal Division
Mr. Forrestal, Attorney, Legal Division
Mr. Egertson, Supervisory Review Examiner, Division of Examinations
Mr. Poundstone, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on October 26, 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:

<table>
<thead>
<tr>
<th>Item No.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Letter to B.M.C. Durfee Trust Company, Fall River, Massachusetts, approving the establishment of a branch at 1479-1493 Pleasant Street.</td>
</tr>
<tr>
<td>2</td>
<td>Letter to The Cleveland Trust Company, Cleveland, Ohio, approving the establishment of a branch in Lakewood.</td>
</tr>
<tr>
<td>3</td>
<td>Letter to The Lorain County Savings &amp; Trust Company, Elyria, Ohio, approving the establishment of a branch at 326 Griswold Road, Elyria Township.</td>
</tr>
<tr>
<td>4-6</td>
<td>Letters to Bank of the Commonwealth, Detroit, Michigan, approving the establishment of two branches in Detroit and one in Redford Township.</td>
</tr>
<tr>
<td>7</td>
<td>Letter to First State Bank of Taos, Taos, New Mexico, approving the establishment of a branch in Questa.</td>
</tr>
<tr>
<td>8</td>
<td>Letter to Charles R. McElwee, Esq., Dayton, Campbell &amp; Love, Charleston, West Virginia, regarding the eligibility of West Virginia industrial loan associations for membership in the Federal Reserve System.</td>
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</tbody>
</table>

Mr. Egertson then withdrew from the meeting.

Reports of change in control of banks (Item No. 9). In a letter dated September 21, 1964, to the Federal Deposit Insurance Corporation that had been referred to the Board for reply, Kingston Trust Company, Kingston, New York, inquired whether Public Law 88-593, which requires reports of changes in control of bank management, would
be applicable in situations where the change occurs as an incident to a merger.

There had been circulated a draft of reply to Kingston Trust Company to the effect that in the course of considering merger applications Federal supervisory agencies acquire knowledge of any change of management that might result, and in such instances reports under Public Law 88-593 would serve no useful purpose and would not be required.

Following comments by Mr. Young (Legal Division), Governor Shepardson suggested that the wording of the letter be changed to indicate clearly that information concerning any change of management that might result from a merger is supplied the appropriate Federal supervisory agency with each merger application and that the receipt of such information constitutes compliance with Public Law 88-593. There being general agreement with this suggestion, the letter was approved unanimously in the form attached as Item No. 9. It was understood that copies of the letter would be sent as a matter of information to the Federal Deposit Insurance Corporation and the Comptroller of the Currency.

Messrs. Hooff and Young (Legal Division) then withdrew from the meeting.

Federal funds transactions (Items 10 and 11). There had been distributed a memorandum from the Division of Examinations and the
Legal Division dated October 20, 1964, regarding a question that had been raised as to whether corporations operating under the provisions of Regulation K, Corporations Engaged in Foreign Banking and Financing under the Federal Reserve Act, that must maintain reserves against deposits as specified in section 211.7(c) of the Regulation may properly engage in Federal funds transactions.

Attached to the memorandum was a draft of letter to corporations operating under Regulation K that would indicate that it was permissible for such a corporation to purchase or sell Federal funds where such activities were merely used to adjust its reserve balance maintained with the Federal Reserve Bank, and not as a regular means of investing its funds.

In commenting on the proposed letter, Mr. Solomon pointed out that unless corporations operating under Regulation K were permitted to sell Federal funds as a means of adjusting reserve balances maintained with the Reserve Banks, such corporations would, in effect, be obliged to maintain higher reserves than required.

After discussion, during which revisions in the proposed letter were suggested by Governor Daane and Governor Mitchell, the letter was approved unanimously in the form attached as Item No. 10. It was understood that the ruling on this question would be published in the Federal Register and in the Federal Reserve Bulletin. A copy of the ruling is attached as Item No. 11.
Messrs. Shay, Sammons, Leavitt, Forrestal, and Poundstone then withdrew from the meeting.

**Building program at New York (Item No. 12).** In a letter to the Board dated April 23, 1964, the Federal Reserve Bank of New York described its space needs for the next 25 years and recommended acquisition of a site near the present Bank building for the construction of additional office space. On April 30, 1964, the Board authorized the Bank to obtain options on either of two sites being considered and to hire Mr. Robert S. Curtiss, real estate agent, for the purpose of assembling the desired property.

In letters dated September 22 and 24, 1964, the New York Bank supplied a summary of option provisions and other information relating to the site desired by the Bank for the construction of an annex and requested approval to exercise purchase options now held on four of the five parcels making up the site and a lease-purchase agreement on the fifth parcel. An outright purchase of the fifth parcel could not be arranged, but the owner of that property offered a lease-purchase agreement providing for an annual rent of $35,000 under a 21-year lease with four renewal options of 21 years each, with the right of the lessor to sell for $700,000 within three years from January 4, 1965, upon three months' notice. Other sizable expenditures incident to acquisition and clearing of the land for building construction purposes were estimated as follows: $3,000,000 for termination
of leases; $75,000 for real estate agent's fee; and $400,000 for demolition of buildings on the property to be acquired.

In a circulated memorandum from the Division of Bank Operations dated October 5, 1964, the New York Bank's proposed acquisition of property was explained and the probable costs were outlined. Attached to the memorandum was a draft of a letter to the Bank that would indicate that the Board would offer no objection to the exercise of the options on the property as described in the Bank's letters, including execution of a lease-purchase agreement on property at 35-39 Maiden Lane--with possible purchase for $700,000 within three years from January 4, 1965, if the lessor elected to sell.

Following comments by Mr. Daniels regarding the Reserve Bank's plans for acquiring the property, Governor Mitchell inquired as to the current space needs of the Bank. Mr. Daniels responded that the Bank was not particularly crowded at this time except in certain areas such as the Check Collection Department. It was felt at the Bank that there would be no real space problem during the next five years.

Governor Mitchell then raised a question as to whether the Bank's estimated future space needs had taken into account the probable effects of automation.

Mr. Daniels indicated that, even having automation in mind, it was thought at the Bank that there would still be need for additional space. It could be argued that regardless of future
needs, the Bank probably would not lose by acquiring the property on which options had been taken.

Governor Mitchell agreed that it would be sensible to acquire the property, but he would favor deferring its development until it was clear that the Bank required additional space, and he expressed doubt that such a need would materialize.

Chairman Martin said that he felt that the Bank would not lose by acquiring the property. The future space needs of the Bank were of course debatable, and it was possible that as a result of automation the work of the Bank might increase to such an extent that additional space would be required.

Governor Mitchell indicated that in his view it was not likely that space requirements would increase, especially if the Custody Division should start keeping records on tape rather than on paper.

Governor Balderston commented that if it was considered desirable for the Bank to continue to be in the Wall Street area, then the properties on which options had been taken constituted the only remaining site that would tie in with the present building. He would favor acquiring the additional property on which an annex might be constructed. However, he believed that leases for the property acquired should not be terminated immediately.

Governor Mills stated that he was disinclined to go against the judgment of the New York Reserve Bank, although he had some reservations about attempting to project the space needs of the Bank for 25
10/26/64

years. He would favor going ahead with the purchase of the property as an asset that would not be expected to decrease in value. Also, he considered that it might be well to proceed with terminating the current leases rather than waiting for them to expire.

Governor Shepardson said that, although he had no precise idea as to what the future needs of the Bank would be, he thought there was merit in getting control of the property at this time.

Governor Daane commented that basically he agreed with Governor Mitchell that the Bank might not have need for additional space in view of various technological developments affecting Reserve Bank operations. However, from the standpoint of prudence, he would favor acquisition of the property, but he would not go beyond that step at this time.

During the discussion that followed, it was brought out that the options had been acquired on a confidential basis and it probably would be difficult to continue keeping confidential the Bank's interest in the property. This might mean that the cost of terminating leases would rise, although this should not occur unless it were made known that the Bank expected to build in the near future.

Several suggestions were made and agreed upon for changing the wording of the letter to the New York Bank to indicate that, while the Board would interpose no objection to the exercise of the options that had been obtained, this authorization should not be
construed as covering approval for building construction or for arranging to terminate leases in respect to the properties to be acquired. It was also agreed that the letter should indicate that the Board would be glad at any time to discuss plans relating to the Bank's building program. The letter was then approved unanimously in the form attached as Item No. 12.

The meeting then adjourned.

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

Letter to the National Foreign Trade Council, Inc., New York, New York, advising that Reed J. Irvine, Associate Adviser, Division of International Finance, had been designated to attend the Fifty-First National Foreign Trade Convention to be held in New York City, November 16-18, 1964.

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

Transfer

Mary Teresa Johnson, from the position of Secretary in the Division of Research and Statistics to the position of Secretary in the Division of Bank Operations, with no change in basic annual salary at the rate of $5,660, effective October 25, 1964.

Establishment of additional position

Position of Economist in the Asia, Africa, and Latin America Section of the Division of International Finance.

Permission to engage in outside activity

Esther Crews, Supervisor, International Information Center, Division of International Finance, to work for a local department store on a part-time basis.
Board of Directors,
B.M.C. Durfee Trust Company,
Fall River, Massachusetts.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by B.M.C. Durfee Trust Company, Fall River, Massachusetts, of a branch at 1479-1493 Pleasant Street, Fall River, Massachusetts, 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.)
Board of Directors,
The Cleveland Trust Company,
Cleveland, Ohio.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by The Cleveland Trust Company at 1431 Coutant Avenue, Lakewood, Ohio, 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 Directors,
The Lorain County Savings & Trust Company,
Elyria, Ohio.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Lorain County Savings & Trust Company, Elyria, Ohio, of a branch at 326 Griswold Road, Elyria Township, Lorain County, Ohio, provided the branch is established within six months 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.)
Board of Directors,
Bank of the Commonwealth,
Detroit, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bank of the Commonwealth, Detroit, Michigan, of a branch in the vicinity of the intersection of West Warren Avenue and Plainview Avenue, Detroit, Michigan, 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.)
Board of Directors,
Bank of the Commonwealth,
Detroit, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bank of the Commonwealth, Detroit, Michigan, of a branch in the vicinity of the intersection of Grand River Avenue and Outer Drive, Detroit, Michigan, 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.)
Board of Directors,
Bank of the Commonwealth,
Detroit, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bank of the Commonwealth, Detroit, Michigan, of a branch in the vicinity of the intersection of Plymouth Road and Beech Daly Road, Redford Township, Wayne County, 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 (8-1046), should be followed.)
Board of Directors,
First State Bank of Taos,
Taos, New Mexico.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by First State Bank of Taos, Taos, New Mexico, of a branch in Questa, New Mexico, 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.)
Charles R. McElwee, Esq.,
Dayton, Campbell & Love,
1101 Security Building,
P. O. Box 1513,
Charleston 25, West Virginia.

Dear Mr. McElwee:

This is in reply to your letter of October 7, 1964, which transmitted to the Board of Governors a copy of a letter dated September 23, 1964, addressed to Mr. Donald S. Whyte, Executive Vice President of The American Industrial Bankers Association. You stated that this letter contained certain questions the answers to which you desired to obtain from the Board and the Federal Deposit Insurance Corporation.

In your letter to Mr. Whyte you stated that you have been employed by the West Virginia Industrial Loan Association to draft legislation designed, among other things, to make it possible for industrial loan companies in West Virginia to become insured banks by the Federal Deposit Insurance Corporation and members of the Federal Reserve System. You further stated that the object of such legislation is to remove whatever impediments that may exist in West Virginia law to industrial loan companies qualifying as insured banks of the Federal Deposit Insurance Corporation and as members of the Federal Reserve System.

The basic question presented is whether the Board may admit industrial loan companies in West Virginia to membership in the System if the proposed legislation is limited to redesignating such companies as banking institutions only for the purpose of qualifying for membership in the System and deposit insurance.

Section 9 of the Federal Reserve Act (12 U.S.C. 321) provides that any bank incorporated by special law of any State, or organized under the general laws of any State, including Morris Plan banks and other incorporated banking institutions engaged in similar business, may apply to the Board for membership in the Federal Reserve System. In exercising its discretion to approve
or disapprove such an application the Board is required to consider, among other things, whether or not the corporate powers exercised by the applying bank are consistent with the purposes of the Federal Reserve Act. This determination must be made on the basis of the actual nature of the business engaged in by the institution involved, regardless of its name.

Neither of your letters referred to above describes the activities in which West Virginia industrial loan associations engage. It is noted, however, that section 3170 of the West Virginia Code contains the powers conferred upon industrial loan associations in your State. An analysis of these powers leads to the conclusion that industrial loan associations in West Virginia are not actually banking institutions. Therefore, the limited legislation which you describe would not appear to be sufficient to enable these industrial loan associations to become members of the System.

The eligibility of a particular institution for membership in the Federal Reserve System is, of course, a matter for determination by the Board upon receipt of a formal application from the institution.

The questions contained in your letter to Mr. Whyte concerning the eligibility of industrial loan associations for deposit insurance should be directed to the Federal Deposit Insurance Corporation.

There is enclosed herewith for your information a copy of the Board's Regulation H concerning membership of State banks in the System.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure
Mr. George Rusk, President,
Kingston Trust Company,
Main and Fair Streets,
Kingston, New York.

Dear Mr. Rusk:

Your letter of September 21, 1964, to the Federal Deposit Insurance Corporation, has been referred to this Board for reply. You wish to be advised whether Public Law 88-593, which requires reports of change in control of bank management, applies in situations where such change occurs as an incident to a merger.

As you know, insofar as insured banks are concerned, no proposed merger, consolidation, acquisition of assets, or assumption of liabilities may be consummated except upon application to and with prior approval of the appropriate Federal supervisory agency. In the course of consideration of such an application each Federal supervisory agency would of necessity acquire knowledge of any change of management that might result. Information concerning any such change of management is supplied with each merger application and, in the circumstances, it is the Board's view that the receipt of such information in connection with merger applications constitutes compliance with Public Law 88-593. However, once a merger has been approved and completely effectuated, the resulting bank thereafter would be subject to the reporting requirements of Public Law 88-593.

We have been advised that the Federal Deposit Insurance Corporation is in agreement with the views expressed above.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
TO THE CORPORATION ADDRESSED:

Question has been raised as to whether Corporations operating under the provisions of Regulation K (12 CFR 211) that must maintain reserves against deposits as specified in Section 211.7(c) of the Regulation may properly engage in Federal Funds transactions.

The Board has concluded that it is permissible for such a Corporation to purchase or sell Federal Funds where such activities are merely used to adjust its reserve balance maintained with the Federal Reserve Bank, and not as a regular means of investing its funds.

For the purposes of Regulation K and reports of condition, Federal Funds Sold by the reporting Corporation shall be included in loans subject to the limitations and restrictions in Section 211.9(b) of Regulation K, and Federal Funds Bought shall be treated as liabilities for borrowed money.

Very truly yours,

Merritt Sherman,
Secretary.
Transactions in Federal Funds

§ 211.101 Transactions to adjust reserve balance maintained by Corporation with Federal Reserve Bank.

(a) Question has been raised as to whether Corporations operating under the provisions of this Part that must maintain reserves against deposits as specified in paragraph (c) of § 211.7 may properly engage in Federal Funds transactions.

(b) The Board has concluded that it is permissible for such a Corporation to purchase or sell Federal Funds where such activities are merely used to adjust its reserve balance maintained with the Federal Reserve Bank, and not as a regular means of investing its funds.

(c) For the purposes of this Part and reports of condition, Federal Funds Sold by the reporting Corporation shall be included in loans subject to the limitations and restrictions in paragraph (b) of § 211.9 and Federal Funds Bought shall be treated as liabilities for borrowed money.
Dated at Washington, D. C., this 26th day of October, 1964.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM.

(Signed) Merritt Sherman

Merritt Sherman, Secretary.
CONFIDENTIAL (FR)

Mr. William F. Treiber,
First Vice President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Treiber:

This refers to your letters of September 22 and 24, 1964, concerning the Bank's proposed program for construction of additional office space and the purchase of a site across Maiden Lane from the Main New York Reserve Bank building for this purpose.

The Board will interpose no objection to the exercise of the options which have been obtained on the property described in your letters, including execution of lease-purchase agreement on property at 35-39 Maiden Lane—with possible purchase for $700,000 within three years from January 4, 1965, if the lessor elects to sell. It is understood that the purchase prices for the remainder of the property total $3,026,400.

This authorization should not be construed as covering approval for building construction or for arranging to terminate leases in respect of the properties to be acquired. The Board believes that it would be desirable to defer building plans until the impact of automation on Reserve Bank operations becomes more clear. The Board will interpose no objection to engaging Horace S. Ely & Company to manage the properties acquired, as authorized by the directors of your Bank.

If desired, the Board will be glad at any time to discuss plans relating to the New York Reserve Bank's building program.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.