The attached minutes of the meeting of the Board of Governors of the Federal Reserve System on December 14, 1964, which you have previously initialed, have been amended at the request of Governor Mills to revise the first complete sentence ending the paragraph at the top of page 6. If you approve the minutes as amended, please initial below.

Governor Mills

Chairman Martin
Minutes for December 14, 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, December 14, 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. Sherman, Secretary
Mr. Broida, Assistant Secretary
Mr. Young, Adviser to the Board and Director, Division of International Finance
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Spencer, General Assistant, Office of the Secretary
Mr. Furth, Consultant


Messrs. Hersey, Sammons, Irvine, Katz, Reynolds, Dahl, Gekker, Hayes, Maroni, and Nettles of the Division of International Finance

Economic review. The Division of International Finance presented a review of international financial developments, following which the Division of Research and Statistics summarized domestic business and financial conditions.

Following discussion based on the foregoing review, all members of the staff except Messrs. Sherman and Spencer withdrew from the meeting and the following entered the room:
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Egertson, Supervisory Review Examiner, Division of Examinations
Mr. Lyon, Review Examiner, Division of Examinations
Mr. Rumbarger, Review Examiner, Division of Examinations
Mr. Smith, Review Examiner, Division of Examinations

Circulated 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>Letter Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Letter to Manufacturers and Traders Trust Company, Buffalo, New York, approving the establishment of a branch at 730 Maple Road, Town of Amherst.</td>
</tr>
<tr>
<td>2</td>
<td>Letter to County Trust Company, Tenafly, New Jersey, approving the establishment of a branch at Franklin Street and West Clinton Avenue.</td>
</tr>
<tr>
<td>3</td>
<td>Letter to Northeastern Banking Company, Commerce, Georgia, approving an investment in bank premises.</td>
</tr>
<tr>
<td>4</td>
<td>Letter to The Sylvan State Bank, Sylvan Grove, Kansas, interposing no objection to dividends declared in January and July 1964 and granting permission to declare a dividend in December 1964.</td>
</tr>
</tbody>
</table>

Application of First Virginia Corporation. There had been distributed copies of two memoranda from the Division of Examinations dated November 10 and December 8, 1964, respectively, and supporting papers, in connection with an application by First Virginia Corporation,
Arlington, Virginia, to acquire 80 per cent or more of the voting shares of The Loudoun National Bank of Leesburg, Leesburg, Virginia.

The memoranda analyzed the application in detail, especially from the point of view of the factors cited for consideration by the Bank Holding Company Act. It was stated that matters in the record bearing upon the first and second statutory factors were consistent with approval of the application but did not offer affirmative support therefor. Management considerations weighed strongly in favor of approval because there was dissension within Loudoun National's board of directors that had deterred appointment of a satisfactory chief executive of the bank. This problem could be solved by First Virginia's acquisition of control. The case as it related to the convenience, needs, and welfare of the community was generally neutral. While there was perhaps some need for foreign banking services at the small branch of Loudoun National at Dulles International Airport that First Virginia could furnish, that consideration alone was of little significance.

Consideration under the fifth statutory factor, in the opinion of the Division of Examinations, supported denial of the application. Consummation of the proposal would result in a rather high concentration of resources in First Virginia's system within the Purcellville-Leesburg area. In addition, there appeared to be
substantial competition that would be eliminated between Loudoun National and First Virginia's Purcellville subsidiary (Purcellville National Bank). Also, the acquisition of Loudoun National by First Virginia would eliminate the sole independent competitor in Leesburg. However, there was some doubt whether Loudoun National would be continued as an independent bank if the application was denied.

The Division of Examinations concluded that, on balance, the adverse considerations under the fifth statutory factor slightly outweighed the rather strong favorable management considerations. It was therefore recommended that the application be denied.

At the request of the Board, Mr. Smith outlined the principal points developed in the memoranda from the Division of Examinations, after which he responded to several questions posed by Governor Shepardson relating to the competitive situation. Mr. Smith also responded to questions by Governor Mitchell as to the service areas of Loudoun National Bank and Purcellville National Bank.

Chairman Martin then called for the views of the members of the Board.

Governor Mills stated that he concurred in the recommendation of the Division of Examinations that the application be denied. He personally rated the adverse competitive situation more strongly than the Division. For this reason, he did not feel that the case
was as close as had been indicated. As he saw it, the concentration of banking assets in two bank holding companies (First Virginia and Financial General Corporation) in the Leesburg area would be excessive. This was not meant as a criticism of the two holding companies, because the same criticism could be made if a large branch banking institution had made application to acquire Loudoun National. Nevertheless, the fact remained that approval would result in an excessive concentration of banking resources under too narrow control, which would be contrary to the spirit of the Bank Holding Company Act.

Beyond that aspect, Governor Mills said, a matter that disturbed him even more, and one that he recognized as a matter of personal opinion, was whether the management of the applicant was of the sterling quality that in the long run should be faced with the responsibility of managing the holding company's operations. He recalled that in an earlier case involving First Virginia the Board had been critical of certain proposed stock transactions. First Virginia had two classes of stock, one of which carried voting rights and was held closely in the hands of management. The other class of stock, which was the vehicle for introducing new capital into the organization, carried no voting rights. First Virginia had not disclosed fully that the type of holding company stock
offered in exchange for shares of the bank being acquired was not the best kind of stock that could be offered, nor had it disclosed the emoluments offered to individuals in the bank, probably to secure their support. He was critical of these somewhat undercover activities, and he questioned the willingness and judgment of First Virginia to expand its operations through the vehicle of debt rather than clean, unadulterated equity capital as a reflection of the attitude of its management.

Governor Robertson stated that he agreed with the recommendation of the Division of Examinations for denial. He was not in accord with the Division's analysis of the financial condition of the holding company in view of First Virginia's debt position, but that particular point was not needed for the purpose of concurring in the recommendation for denial.

Governor Shepardson commented that he thought the Division's recommendation was appropriate in this case. However, he was concerned about what alternative course the bank might pursue if the application were denied. It was always possible that Loudoun National might find itself in a less desirable situation than if it were acquired by the applicant but this, of course, was conjecture.
Governor Shepardson added that he had more question about the financial condition of the holding company than the Division seemed to express in its memoranda.

Governor Mitchell concurred in the recommendation for denial. He recognized that the directors and stockholders of Loudoun National wanted to get out of the business of managing the bank, but he thought that it would have been a better situation had the bank wanted to affiliate with some other banking institution in the area.

Governor Balderston remarked that he had somewhat the same sentiment as Governor Mitchell and that he would be in favor of denying the application.

Chairman Martin said that he favored denial.

Thereupon, the application of First Virginia Corporation was denied by unanimous vote. It was understood that the Legal Division would prepare an order and statement reflecting this decision for the Board's consideration.

Request for competitive factor reports (Item No. 5). Mr. Shay stated that a request had been received from Mr. Robert D. LeMense, Counsel for The City Bank and Trust Company, Milwaukee, Wisconsin, for copies of the reports on competitive factors submitted to the Board by the other two bank supervisory agencies and the Department of Justice in connection with the application of
City Bank to acquire the assets and assume the liabilities of American State Bank, Milwaukee.

The application of City Bank had been transmitted to the Board with a covering letter from the Federal Reserve Bank of Chicago dated November 9, 1964, that included reference to the request by Mr. LeMense. Upon checking, the reason given for requesting the reports was that in some instances in the past such reports had not been entirely correct and the bank wanted to refute any erroneous information before final action was taken on the application.

Mr. Shay went on to note that the Board's practice had been not to release competitive factor reports unless their release was authorized by the agencies submitting them to the Board. In this case, Mr. Moroney, General Counsel of the Federal Deposit Insurance Corporation, had indicated that the Corporation would have no objection to its report being furnished to City Bank's Counsel. When the reports in question were received from the Comptroller of the Currency and the Department of Justice, the approval for release of their reports would be obtained before copies were furnished.

After brief discussion, compliance with the request of Counsel for City Bank was authorized, subject to appropriate clearance with the Comptroller of the Currency and the Department of Justice. Attached as Item No. 5 is a copy of a letter sent to the Federal Reserve Bank of Chicago in connection with the foregoing action.
Messrs. Shay, Egertson, Lyon, Rumbarger, and Smith then withdrew from the meeting.

Developments relating to proposed property acquisition.

Mr. O'Connell reported on the current status of negotiations for the acquisition by the Board of the triangular-shaped property adjacent to the board's present parking lot bounded by Virginia Avenue and "C" Street, N. W. This property was designated as Square N. 128 in the land records of the District of Columbia. The Board was seeking to acquire the property for the purpose of providing underground parking in connection with the proposed construction of an annex building.

Mr. O'Connell said that on December 8, 1964, he and Mr. Kelleher, Director of the Division of Administrative Services, had attended a meeting of the "Subcommittee on Pennsylvania Avenue, S. E." Questions of site planning and transfer of jurisdiction had been referred to the Subcommittee following the August 27, 1964, meeting of the Coordinating Committee of the National Capital Planning Commission.

The Chairman of the Subcommittee (Mr. Charles Conrad, Deputy Director, National Capital Planning Commission) announced that in the course of its November 18, 1964, meeting, general approval had been given by the Subcommittee to the initial sketch of a preliminary
site plan rendered by the Board's architects. He had stated that the purpose of the instant meeting was to formulate a recommendation for transmittal to the Coordinating Committee of the National Capital Planning Commission on the question of agency jurisdiction over Sq. N. 128. Chairman Conrad had described two alternatives to the jurisdictional question, following which the Board's representatives had presented arguments supporting transfer of jurisdiction to the Board. At the conclusion of their presentation, Chairman Conrad had expressed a preference for transferring jurisdiction to the Board. However, an Interior Department representative (Mr. Leroy A. Rowell) had stated that the Department's firm position was that the jurisdiction of all public parks in the city, including Sq. N. 128, should be in the Interior Department. Notwithstanding that policy, the Interior Department was wholly agreeable to working out an arrangement whereby the Board would have its proposed underground parking, as well as a principal voice in the development planning for the land in question. The representative of the District of Columbia (Colonel John A. Israelson) made it known that a definite commitment had been made by the District of Columbia Government to the Department of the Interior on the question of jurisdiction. He indicated that he would have to cast
the District's vote in favor of the National Park Service having jurisdiction over Sq. N. 128, with the right given to the Board for its proposed underground parking.

Mr. O'Connell went on to note that at that point in the December 8 meeting it was clear that the Subcommittee was deadlocked on the question of jurisdiction. In order to avoid an inter-agency conflict on this matter, he had requested a recess of the Subcommittee for the purpose of calling Governor Shepardson to seek authorization for withdrawal of the Board's stated position regarding jurisdiction and for commitment of the Board, under certain conditions, to a "no objection" position in regard to jurisdiction of Sq. N. 128 in the Park Service. Following conversation with Governor Shepardson, he had reported to the Subcommittee that in view of the positions stated by the Department of the Interior and the District of Columbia Government, the Board would not oppose a recommendation to the Coordinating Committee that, subject to certain conditions, jurisdiction of Sq. N. 128 be transferred to the National Park Service.

The specific conditions identified as being required by the Board in agreeing not to oppose Park Service jurisdiction were:

1. a definite agreement between the Board and the Department of the Interior whereby the Board's underground parking plan would be
confirmed and authorized; and (2) a further agreement that (a) the Department's access to the fountain mechanism would be from the outside surface rather than the interior of the Board's garage extension, and (b) for the construction of a covered fire exit from the east end of the underground garage, the exit to open from the inside only.

Mr. O'Connell said that the representatives of the Park Service and the District of Columbia Government stated their agreement to the foregoing conditions. Through inquiries and comments addressed by Messrs. O'Connell and Kelleher to Mr. Rowell, it was made clear that the Board would assume (1) that the cost of initial development and of subsequent maintenance of the surface of Sq. N. 128 would be borne by the Department of the Interior and (2) that the Department would have the necessary funds available, and would proceed with development of Sq. N. 128 at such time as required by the progress of the Board's construction program.

The last point that had been discussed by the Subcommittee was the formal closing of 20th Street, N. W. This action, pursuant to provisions of the District of Columbia Code, required a public hearing and formal action by the District of Columbia Commissioners. The District's representative was of the opinion that the details of the 20th Street closing and transfer of title to west and east
portions of the street could be accomplished without any great problem. He had expressed the view that under District of Columbia law title to the west portion of 20th Street might automatically vest in the Board when the street was officially closed. In such an event, it was agreed that the Board could then pass such title to the Department of the Interior or, if agreed to by all parties concerned, could retain title of the west portion of 20th Street as a complement to the land now owned by the Board.

Mr. O'Connell concluded his report by noting that it was understood that the Solicitor for the Department of the Interior would prepare a draft of agreement setting forth the understandings of all parties as to the circumstances and conditions to attend the transfer of jurisdiction of Sq. N. 128 to the Park Service. Upon presentation to the Board's staff, the agreement would be brought to the Board for consideration. The District of Columbia's representative was to immediately place in the hands of the Corporation Counsel for the District several questions relating to the closing of 20th Street. He was also to direct preparation of the necessary plat transferring jurisdiction of Sq. N. 128 from the District Government to the Interior Department. When prepared, the plat would contain specific reference to the agreement executed between the Board and the Interior Department relating to the
conditions mentioned. The plat and related design recommendations would then be brought before the Coordinating Committee and, if approved by that body, before the National Capital Planning Commission.

(The December 8, 1964, meeting of the Subcommittee on Pennsylvania Avenue, S. E., was discussed in greater detail in a memorandum from Mr. O'Connell to Governor Shepardson dated December 10, 1964. A copy of the memorandum has been placed in the files of the Board.)

Governor Shepardson commented that he thought Mr. O'Connell and Mr. Kelleher had worked out a most satisfactory arrangement under which the property might be acquired by the Board. Accordingly, he recommended that the Board proceed with plans to acquire the property on the basis of the understanding worked out with the Subcommittee on Pennsylvania Avenue, S. E.

There was agreement with Governor Shepardson's recommendation.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

Salary increases, effective December 20, 1964

<table>
<thead>
<tr>
<th>Name and title</th>
<th>Division</th>
<th>Basic annual salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milo O. Peterson, Economist</td>
<td>Research and Statistics</td>
<td>$10,960 to $11,315</td>
</tr>
</tbody>
</table>
Salary increases, effective December 20, 1964 (continued)

<table>
<thead>
<tr>
<th>Name and title</th>
<th>Division</th>
<th>Basic annual salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Helen B. Junz, Economist</td>
<td>International Finance</td>
<td>$12,915 to $13,335</td>
</tr>
<tr>
<td>Johnny Samuel Fox, Jr., Messenger</td>
<td>Administrative Services</td>
<td>3,385 to 3,500</td>
</tr>
<tr>
<td>Park O. Showalter, Electrician-Operating Engineer</td>
<td></td>
<td>6,864 to 7,218</td>
</tr>
<tr>
<td>Marguerite L. Renucci, Statistical Clerk</td>
<td>Data Processing</td>
<td>5,230 to 5,380</td>
</tr>
</tbody>
</table>

Transfer

Doreen Dippre, from the position of Secretary in the Office of the Secretary to the position of Secretary to Governor Shepardson, with an increase in basic annual salary from $7,850 to $9,535, effective January 4, 1965.

Acceptance of resignation

Roberta M. Weil, Economist, Division of Research and Statistics, effective at the close of business December 24, 1964.
December 14, 1964

Board of Directors,
Manufacturers and Traders
Trust Company,
Buffalo, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Manufacturers and Traders Trust Company, Buffalo, New York, of a branch at 730 Maple Road, Town of Amherst (unincorporated area), Erie County, New York, 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,
County Trust Company,
Tenafly, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by County Trust Company, Tenafly, New Jersey, of an in-town branch at the southwest corner of the intersection of Franklin Street and West Clinton Avenue, 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,
Northeastern Banking Company,
Commerce, Georgia.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an investment in bank premises of $122,000 by Northeastern Banking Company, Commerce, Georgia. This amount includes the $42,000 already spent for land and a building and $80,000 to be used for the remodeling of the newly acquired building. The $122,000 does not include bank's carrying value of its present banking quarters.

It is the Board's understanding that present banking premises are to be sold as soon as possible with the proceeds used to reduce the carrying value of bank premises.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.
Board of Directors,
The Sylvan State Bank,
Sylvan Grove, Kansas.

Gentlemen:

The Board has received a letter written by Mr. J. Rex Duwe, President of The Sylvan State Bank, regarding a payment of dividends by the Bank in January and July of 1964, and requesting approval for the proposed payment of an additional dividend of $20,000.

The payment of two dividends, one for $25,000 in January of 1964, and the other for $5,000 in July of 1964, was in contravention of the provisions of Section 9, paragraph 6 of the Federal Reserve Act and Section 5199(b), United States Revised Statutes. While the statutes contemplate that prior approval by the Board will be obtained before the declaration of dividends which would exceed the limitations of Section 5199(b), such prior approval cannot be given for these dividends as they have already been declared and paid. After consideration of the facts, however, the Board does not object to the dividends declared and paid in January and July of 1964. In addition, the Board approves the declaration and payment of a $20,000 dividend in December of 1964.

In taking the above action, the Board has carefully considered your bank's overall condition, net earnings and capital position as well as your desire to distribute earnings in the year earned. The Board assumes that in the future your dividends will be more in line with your earnings so that deterioration in the bank's capital position will not result.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.
In reply to the last paragraph of your letter of December 9, 1964, to Mr. Egertson of the Board's staff and the next to the last paragraph of the letter of November 5 to your Bank from Mr. Robert D. LeMense concerning the application of The City Bank and Trust Company, Milwaukee, Wisconsin, to merge with the American State Bank, Milwaukee, Wisconsin, there are enclosed two copies of the report received by the Board from the Federal Deposit Insurance Corporation on the competitive factors involved in the case. It will be appreciated if you would forward a copy of the report to Mr. LeMense. When received, copies of the competitive factors reports to the Board on the matter from the Comptroller of the Currency and the Department of Justice will also be forwarded for transmission to Mr. LeMense.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures