

Minutes for December 31, 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

(M)

Gov. Mills

Gov. Robertson

R

Gov. Balderston

CRB

Gov. Shepardson

[Signature]

Gov. Mitchell

[Signature]

Gov. Daane

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on Thursday, December 31, 1964. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Mills, Acting Chairman
Mr. Robertson
Mr. Shepardson
Mr. Mitchell
Mr. Daane

Mr. Sherman, Secretary
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Spencer, General Assistant, Office of the Secretary
Mr. Forrestal, Attorney, Legal Division
Mr. Egertson, Supervisory Review Examiner, Division of Examinations
Mr. Donovan, Review Examiner, Division of Examinations
Mr. Poundstone, Review Examiner, Division of Examinations
Mr. Smith, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of New York on December 30, 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:

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	<u>Item No.</u>
Letter to The Schenectady Trust Company, Schenectady, New York, approving the establishment of a branch in the Town of Rotterdam.	1
Letter to McIlroy Bank, Fayetteville, Arkansas, approving the establishment of a branch in the vicinity of 15th Street and U.S. Highway 71.	2
Letter to Union Bank and Trust Company, Kokomo, Indiana, approving the establishment of a branch at 2108 West Sycamore Street.	3
Letter to Morgan Guaranty International Finance Corporation, New York, New York, granting consent to the purchase of additional shares of Peruano-Suiza de Fomento e Inversiones Sociedad Anonima ("Peruinvest"), Lima, Peru.	4
Telegram to the Presidents of all Federal Reserve Banks regarding the manner in which the special payment to the Treasury for 1964, to be disbursed in 1965, should be shown in published statements of condition of the Federal Reserve Banks.	5

With respect to Item No. 4, Mr. Poundstone explained that on November 25, 1964, the Board had granted its consent to the purchase of 7,500 additional shares of "Peruinvest" by Morgan Guaranty. The Corporation was now requesting that the Board's consent of November 25 be amended to permit the purchase of twice the number of shares authorized, because the amount of "Peruinvest's" paid-in capital was to be approximately doubled, which was not known when the earlier consent was requested.

Messrs. Forrestal and Poundstone then withdrew from the meeting and Mr. Bakke, Assistant Secretary, entered the room.

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Dinsdale Bros., Inc. There had been distributed a memorandum from the Division of Examinations dated December 29, 1964, submitting a draft of letter to Dinsdale Bros., Inc., Palmer, Nebraska, granting a determination that the company was not a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act.

According to the memorandum, the applicant owned a majority of the shares of capital stock of Lyon County State Bank, Rock Rapids, Iowa, a State member bank, and did not own or control stock of any other bank. The Division's recommendation for a favorable determination was made on the basis of the Board's general policy of granting such determinations in all one-bank cases, unless there were extraordinary circumstances of a nature such as to warrant denial. However, it was noted that on March 2, 1964, the Board had granted a similar determination exempting Shelby Insurance, Inc., Shelby, Nebraska, from holding company affiliate requirements in connection with its ownership of controlling interest in The First National Bank of Shelby, Shelby, Nebraska; and that on June 2, 1964, the Board determined that Osceola Insurance, Inc., Osceola, Nebraska, was not deemed to be a holding company affiliate in connection with its ownership of controlling interest in The First National Bank of Osceola, Osceola, Nebraska. Mr. Roy Dinsdale, Vice President of Dinsdale Bros., Inc., the applicant in the case now before the Board, was also president of both of the aforementioned corporations. In addition, the Dinsdale family owned a

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majority of stock of the National Bank of Neligh, Nebraska; a direct controlling interest in several grain companies; and the majority of shares of State Bank of Palmer, Nebraska.

At the outset of discussion, Governor Robertson expressed the opinion that the instant application involved circumstances such as to warrant an exception to the Board's policy of normally granting favorable determinations in so-called one-bank cases.

Governor Mills expressed decided reservations regarding the desirability of these arrangements for owning and controlling banks, but he also questioned the desirability of denying a favorable determination in an individual case such as this. He would prefer to follow the Board's general policy of granting a favorable determination in a one-bank case, but he would have no objection to a general review of all determinations granted, with a view to re-examining the Board's position.

Mr. Hackley noted that section 301 of the Banking Act of 1935 provides that the term "holding company affiliate" shall not include, except for the purposes of section 23A of the Federal Reserve Act, as amended, any organization that is determined by the Board not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks. Therefore, it was purely a factual determination that the Board was called upon to make. The Legal Division in the past had taken the position that, when the holding company

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affiliate did nothing but own the stock of one bank, an exemption under section 301 should be granted unless there were exceptional circumstances. While the Board could take the position that the present case involved extraordinary circumstances because of the Dinsdale family interests in other banking institutions, such a position would be inconsistent with that taken in other similar cases so long as the Board followed its present general policy.

Governor Mills observed that a solution to the matter lay in obtaining legislation that would repeal the holding company affiliate provisions of present law and amend the definition of a holding company in the Bank Holding Company Act. With respect to the instant case, there was a question involved whether the Board should grant a favorable determination and not break the chain of past decisions where in similar cases such determinations had been granted. If the request were denied, the applicant had the alternative of applying to the Board for a limited voting permit.

Governor Shepardson said that he was inclined to agree with Governor Mills that there was nothing to be gained by making this case the subject of special action. However, he would favor having a current review of the determinations that had been granted and a discussion of the basis for Board consideration and action.

In response to a question by Governor Mitchell, Mr. Smith indicated that the Division of Examinations was now making a review of

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section 301 determinations and that a memorandum on this subject would be presented to the Board soon.

Governor Mitchell then suggested that rather than act on the Dinsdale application at today's meeting, the Board defer its decision until the Division of Examinations' review of other section 301 determinations could be considered.

After further discussion, there was general agreement with Governor Mitchell's suggestion, and it was understood that the application of Dinsdale Bros., Inc., would be considered further at another meeting of the Board.

The meeting then adjourned.

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

Memorandum from the Office of the Controller dated December 29, 1964, recommending, in accordance with section D l.g.(5) of the Board's Travel Regulations, that members of the field staff of the Division of Examinations be allowed mileage at the rate of 7.5 cents per mile for use of privately owned automobiles in official travel, effective January 1, 1965.

Memorandum from the Division of Data Processing dated December 29, 1964, requesting authorization to engage Mrs. Joan Adoff on a contractual basis, on terms indicated in the memorandum, to assist the Division of Bank Operations in computer planning and programming of Federal Reserve Bank functional expense report data.

Acting in the absence of Governor Shepardson, Governor Robertson today approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

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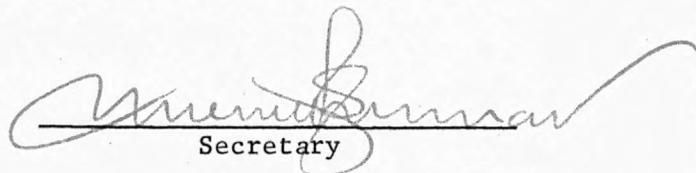
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Salary increase

Ann N. Vermeulen, Clerk, Division of International Finance, from \$4,930 to \$5,330 per annum, with a change in title to Senior Clerk, effective upon assuming her new duties.

Transfer

Lula B. Bierly, from the position of Statistical Clerk in the Division of Data Processing to the position of Clerk in the Division of International Finance, with no change in basic annual salary at the rate of \$4,780, effective January 3, 1965.



Secretary

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

Item No. 1
12/31/64

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 31, 1964.



Board of Directors,
The Schenectady Trust Company,
Schenectady, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Schenectady Trust Company, Schenectady, New York, of a branch in the Curry Road Shopping Center, in the vicinity of the intersection of Curry Road and Pinelawn Avenue, Town of Rotterdam (unincorporated area), Schenectady 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 GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

Item No. 2
12/31/64



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 31, 1964.

Board of Directors,
McIlroy Bank,
Fayetteville, Arkansas.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by McIlroy Bank, Fayetteville, Arkansas, of a branch in the vicinity of the intersection of 15th Street and U. S. Highway 71, Fayetteville, Washington County, Arkansas, 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 GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 31, 1964.

Board of Directors,
Union Bank and Trust Company,
Kokomo, Indiana.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Union Bank and Trust Company, Kokomo, Indiana, at 2108 West Sycamore Street, Kokomo, Indiana, 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 GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 4
12/31/64

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 31, 1964.



Morgan Guaranty International
Finance Corporation,
23 Wall Street,
New York 8, New York.

Gentlemen:

Reference is made to the Board's letter of November 25, 1964 granting consent for Morgan Guaranty International Finance Corporation ("MGIFC") to purchase and hold 7,500 additional shares, par value Peruvian Soles 1,000 each, of the capital stock of Peruano-Suiza de Fomento e Inversiones Sociedad Anonima ("Peruinvest"), Lima, Peru, at a cost of approximately US\$376,000.

Your letter of December 21, 1964, transmitted through the Federal Reserve Bank of New York, requested that the consent be amended to permit your Corporation to purchase up to an additional 13,000 shares rather than 7,500 shares. In accordance with your request and on the basis of information furnished, the Board of Governors grants consent for MGIFC to purchase and hold 13,000 additional shares, par value Peruvian Soles 1,000 each, of the capital stock of Peruinvest, at a total cost of approximately US\$651,170, provided such stock is acquired within one year from the date of this letter.

The Board's consent is granted subject to the same conditions prescribed in the Board's letter of March 22, 1962, granting consent to the purchase of shares of Peruinvest.

The Board also approves the purchase and holding of shares of Peruinvest within the terms of the above consent in excess of 10 per cent of your Corporation's capital and surplus.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Item No. 5
12/31/64T E L E G R A M
LEASED WIRE SERVICEBOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

December 31, 1964.

CONFIDENTIAL (FR)

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Question has been raised by a Federal Reserve Bank whether amount of special payment to Treasury for 1964, which will be disbursed in 1965 and reported in OTHER LIABILITIES block on Form FR 34, should be set out separately by footnote or otherwise in published condition statement.

Board does not plan to identify the increase in "Other liabilities and accrued dividends" in weekly statement of condition of the Federal Reserve Banks for January 6 and subsequently. Should questions be raised as to increase in size of "Other liabilities" item, it would be explained that it includes the amount to be paid into the Treasury in 1965 reflecting decision to maintain surplus of the Reserve Banks at level of paid-in capital, rather than subscribed capital, as explained in Press Statement to be released January 5.

Board suggests that your Bank follow similar procedure.

SHERMAN

