FR609

Minutes for January 18, 1965

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, January 18, 1965. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Adviser to the Board and Director, Division of International Finance
Mr. Noyes, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Thompson, Assistant Director, Division of Examinations
Mr. Egertson, Supervisory Review Examiner, Division of Examinations
Messrs. Donovan, Guth, Lyon, and Rumbarger, Review Examiners, Division of Examinations
Mr. Noory, Assistant Review Examiner, Division of Examinations

Discount rates. The establishment without change by the following Federal Reserve Banks on January 14, 1965, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks: Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas.

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

	Item No.
Letter to The Chase Manhattan Bank, New York, New York, approving an extension of time to establish a branch at 208 Amsterdam Avenue, Borough of Manhattan.	1
Letter to Seaway National Bank of Chicago, Chicago, Illinois, granting its request for permission to maintain reduced reserves.	2
Order in the matter of Commercial Bancorp, Inc., Miami, Florida, granting its request for an extension of time within which to become a bank holding company through the acquisition of certain bank shares.	3

Reports on competitive factors. A report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of Industrial Bank of Schenectady, Schenectady, New York, with Industrial Bank of Commerce of Albany, Albany, New York, was approved unanimously for transmittal to the Corporation. The conclusion read as follows:

The proposed merger of two industrial banks, Industrial Bank of Schenectady, Schenectady, New York, and Industrial Bank of Commerce of Albany, Albany, New York, and the subsequent conversion of the resulting institution to a State-chartered commercial bank would have no adverse effect on competition.

A report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of First National Bank of South Gate, South Gate, California, into City National Bank, Beverly Hills, California, was approved unanimously for transmittal to the Comptroller. The conclusion read as follows:

The proposed merger of First National Bank of South Gate into City National Bank, Beverly Hills, would not have adverse competitive effects.

Messrs. Young and Egertson then withdrew from the meeting and Messrs. Bakke, Assistant Secretary, and Smith, Senior Economist, Division of Research and Statistics, entered the room.

Section 301 determinations (Items 4-8). There had been distributed a memorandum from the Division of Examinations dated January 8, 1965, presenting for the Board's consideration information and views bearing upon several questions that had arisen in connection with four pending requests for section 301 determinations, as well as future requests that might involve similar circumstances. The requests pending before the Board were from Dinsdale Bros., Inc., Palmer, Nebraska; Schnitzler Corporation, Froid, Montana; Citizens Bancorporation, Vermillion, South Dakota; and The Harlem Corporation,

Harlem, Montana. Separate memoranda from the Division that had likewise been distributed discussed these requests in detail.

There was also on today's agenda a request from Wheaton Bancorporation, Inc., Chicago, Illinois, for a section 301 determination; as distinguished from the others, this was clearly a one-bank case. Bancorporation's assets consisted almost entirely of shares of Wheaton (Illinois) National Bank; it had financed the major part of the share acquisition by means of a loan from a Chicago bank, the shares being held as collateral to the loan.

(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 corporation all of the stock of which is owned by the United States or any corporation which is determined by the Board of Governors of the Federal Reserve System not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies.)

The January 8 memorandum pointed out that the following five types of cases, together with combinations thereof, might arise under section 301: (1) corporation holds stock of only one bank, a member bank; (2) same as the first case except that one or more individuals (not corporations) that own the corporation also

own stock in other banks; (3) same as the second case except that the direct ownership of some or all of the banks owned by the individuals is replaced by ownership through a corporation; (4) the corporation owning a majority of the stock of a member bank also owns less than 25 per cent of the stock of one or more other banks; (5) same as the fourth case except that the ownership of more than one bank exceeds 25 per cent. For reasons discussed, the Division believed that the Board had been correct in taking the position that section 301 was intended to exclude from the definition of "holding company affiliate" those cases that do not represent "group" (holding company) banking. The cases thus excluded were essentially various versions of chain banking, involving ownership of several banks through individual ownership or through corporations serving no purpose except as adjuncts to individual ownership. It was recommended that the Board continue to grant determinations in all section 301 cases of the first four types described, on the theory that they were essentially examples of chain banking rather than group banking, except in unusual situations where the corporation requesting a determination was actively engaged in directing or administering the affairs of the banks in which it owned stock. Since the Bank Holding Company Act automatically covered virtually all cases of the fifth type, and thus might be

said to be a sort of legislative finding that control existed in such situations, it was recommended that section 301 determinations be denied in such cases, with possible exceptions in unusual situations.

In response to a question, Mr. Hackley said that normally the question of piercing the corporate veil arises when a corporation is controlled through another corporation. In section 301 cases there was no need to pierce the corporate veil, in the usual sense of the term, because the law defined a holding company affiliate in terms of a single bank. If, in the Board's opinion, a corporation was a means of holding bank stocks or managing or controlling banks, directly or indirectly, it seemed to him that without going into the question of piercing the corporate veil except in a general way, the Board might take the position in a one-bank situation that it could properly refuse to grant a section 301 determination. In passing section 301 in 1935, the Congress appeared to have had in mind exempting cases where the holding of bank stock was accidental, that is, where the relationship was clearly incidental to the other operations of the holding company affiliate.

Where several corporations were under the same control and the purpose of those corporations was to enable a single interest

to control several banks through the corporations, the Board could properly refuse to grant section 301 determinations, Mr. Hackley felt. In cases where a corporation controlled one bank and owned a substantial amount of stock in one or more other banks, an even stronger argument could be made for denying such determinations, particularly where the bank stocks held comprised a large proportion of the corporation's total assets.

In response to another question, Mr. Hackley pointed out that if the Board denied a section 301 determination it was necessary for the holding company affiliate to obtain a permit from the Board if it wished to vote the bank stock that it owned or controlled. From a practical standpoint it might be said that little was gained from denying a determination, and the Board had recommended repeal of the holding company affiliate provisions of the law. However, Mr. Hackley felt that as long as the law was on the books the factual determination provided for in section 301 simply gave the Board discretion to determine whether a company was in the business of holding bank stocks or managing or controlling banks.

There followed a question whether the law permitted reaching cases of "captive" banks; for example, a bank owned by an insurance company for its own purposes. Mr. Hackley explained that this would be difficult, in a one-bank case, because the company that owned the bank presumably would be engaged primarily in some business other than banking.

The discussion then turned to the effect of denying section 301 determinations but issuing general or limited voting permits, and the results were described by members of the staff. Particular reference was made to situations where authorization under a voting permit was restricted to voting for certain routine types of actions. It was also noted that the Board, if it saw fit, could deny any voting permit whatever. Such a decision would involve considering the financial condition of the applicant and any other factors bearing on the public interest.

As the discussion proceeded, Governor Mills raised a question as to whether anything of significance would be accomplished if the Board should reverse its policy of making favorable determinations as a normal matter in all one-bank cases except in extraordinary circumstances. While he did not relish the types of cases that were before the Board today for consideration, he felt that a refusal of section 301 determinations and granting of limited voting permits cast suspicion on the character and intentions of management. He doubted whether this was warranted in the absence of definite evidence of evil intent. Such evidence really had to be discovered through examination of the banks involved, which was the responsibility of the particular bank supervisory agencies. The problem actually went back to the ability of questionable interests to acquire control of a bank, largely through

the use of credit. This problem in turn went back to the advancement of funds by correspondent banks, insurance companies, or others to permit the acquisition of banks on a very narrow equity. He was not sure how this situation could best be corrected, but it appeared that the proper approach was through legislation providing limits on how the ownership of banks could be acquired and perhaps prohibiting the acquisition of banks largely on credit. The Federal Deposit Insurance Corporation had sponsored an approach to this problem through legislation obtained last year, but the legislation only provided for the supplying of information. It did not state what sanctions would be applied if a change in ownership was found to be unsatisfactory by the appropriate supervisory body.

Mr. Solomon suggested that the problem under discussion came down to what were essentially conflicting indications of public policy. If individuals acquired several banks and tied them together under common ownership, there were no legislative restrictions whatever. However, corporations were subject to limitations in tying together the ownership of banks. This situation created difficulty in borderline cases that raised the question whether banks were in fact owned by individuals or by corporations. There were cases, for example, where a corporation owned stock of one bank and the corporation was in turn owned by an individual.

Here little seemed to be accomplished by use of the corporation except for some tax advantage that might be gained. The Board, he thought, had properly concluded, in granting section 301 determinations, that in such cases chain banking actually was involved. Although a corporation was inserted into the picture, it was not engaged in a typical holding company operation. Technically it could be said that the corporation was in the business of holding bank stock, but the corporation was not administering or directing the affairs of the bank in the usual sense of a holding company operation. Further, the fact that such a corporation might also own a minority interest in the stock of other banks did not seem to alter the situation, for individual ownership was still present and the corporation inserted into the picture was simply a shell. It seemed reasonable to say again that the situation essentially involved chain banking.

The picture looked more complicated when a corporation owned substantial amounts of stock of more than one bank. If the ownership was greater than 50 per cent, the corporation obviously controlled more than one bank and a holding company operation was involved. There was a more difficult problem when a corporation owned 50 per cent or more of the stock of one bank and less than 50 per cent of the stock of one or more other banks. If the stock ownership was as high as 25 per cent, then the situation could be

related to the definition in the Bank Holding Company Act of 1956, which says in effect that 25 per cent ownership is sufficient to exert control. When the ownership fell below 25 per cent, however, there was no legislative indication as to what constituted control. The presumption, Mr. Solomon felt, ought to be in the direction that there was no control, in the absence of some indication that the corporation was acting in the manner of a holding company; for example, providing services for a fee. Barring such circumstances it seemed to be a fairly good principle to say in effect that no typical holding company operation was involved, and that this was the type of situation the Congress intended to exempt through section 301. Many problems would remain on that basis, such as those where large correspondent banks lent virtually the entire purchase price of a small bank. But such problems could prevail in the case of individual as well as corporate ownership. The question in making section 301 determinations did not really go to whether sound or unsound operations were involved; instead it went to whether a holding company operation or a chain banking operation was involved.

Mr. Hackley commented that it was true, of course, that the holding company affiliate statute was not aimed at chain banking, but the situation was changed when an individual placed a corporation between himself and ownership of a bank. As one distinction,

a corporation has indefinite life. If the Board were to grant section 301 determinations as a general rule in all cases except those where a corporation controlled a member bank and owned at least 25 per cent of the stock of another bank, this would amount to equating the definition of a holding company affiliate with the definition of a bank holding company, thereby nullifying the force and thrust of the holding company affiliate provisions of the law. It was generally agreed within the staff that these provisions no longer served a particularly useful purpose, but they still constituted the law. The Congress clearly contemplated that there could be holding company affiliates without holding company banking.

Governor Mitchell suggested that the Board might get into an awkward public relations posture by granting section 301 determinations freely. He cited the situation in Illinois where branch banking was prohibited. There was no restriction on the right of an individual to own several banks, but the use of corporations facilitated the ability of individuals to operate groups of banks under common ownership. If the Board ignored such a development, it would be saying that it was not concerned about the use of corporations in such circumstances. In his opinion the Board had an obligation to point out that the corporate form was being used essentially to avoid statutory prohibitions, and the only vehicle to evidence that obligation was the voting permit requirement. By

using it the Board would be in a better position than by saying that the use of corporations was just like individual ownership. He thought the two situations could be distinguished, for it was the corporate form that enabled the individual to operate on a large scale.

Governor Shepardson inquired what kind of situation the Division of Examinations would envisage in which a corporation other than a bank holding company (as defined in the Bank Holding Company Act) would not be eligible for a section 301 determination. Mr. Solomon replied that if a corporation owned more than 50 per cent of the stock of a member bank, owned less than 25 per cent of the stock of another bank or banks, and was behaving like a holding company in the sense of providing services to those banks, this would be a situation where a section 301 determination presumably should not be granted. He added that under the usual dictionary definition, a holding company was one that owned stocks in order to administer or direct the affairs of the corporations it controlled.

In response to further questions Mr. Solomon expressed the view that the legislative history supported such a definition. Governor Robertson, on the other hand, expressed the view that the legislative history showed clearly that section 301 was intended

to exempt only "accidental" shareholdings. Mr. Solomon suggested that the word "accidental" might be defined in terms of an atypical or unusual situation, rather than one in which the acquisition of bank stock was unanticipated. Mr. Hackley felt that the intent of Congress was quite clear from Committee reports which listed types of cases where it was contemplated that the Board might grant exemptions. Certain specific cases were mentioned, and the Board subsequently granted exemptions in those cases. Afterward there were a few cases where corporations were organized for the purpose of liquidating banks, and the Board felt impelled to grant determinations. This started the so-called one-bank policy, and for many years it was the Board's policy to grant determinations automatically in one-bank cases. Later, however, the Board asked the staff to review the matter, and in 1954 the Board modified its policy to provide that exemptions would be granted in one-bank cases except in "extraordinary circumstances." While the scope of the exception was not defined at the time, the Board had before it a staff memorandum giving as one illustration a situation where a corporation controlled one member bank and held a minority interest in several other banks. Mr. Hackley felt that the intent of the original statute was clear. The concern of the Legal Division had not been so much with the practical effects of granting section 301

determinations as with the question whether actions of the Board were consistent with the legislative intent.

In answer to a question, Mr. Hackley said he thought the staff was in agreement in favoring repeal of the holding company affiliate law. He said he personally would favor repeal even if the definition of a bank holding company in the Bank Holding Company Act was not extended to cover one-bank cases. The holding company affiliate law had never been particularly effective, for corporations could usually exert control over banks without voting their stock.

Governor Robertson indicated that he would want to give additional thought to whether he would favor repeal of the holding company affiliate law in the absence of a change in the definition of bank holding company in the Bank Holding Company Act, particularly in view of the way corporations were being used at the present time, for example in Illinois, to bring banks under the control of common interests.

Chairman Martin then inquired as to the Board's views with respect to the section 301 cases before it today, and Governor Mills stated that he would grant the requested determinations. This did not indicate that he thought well of the situations involved in those cases, but the granting of the determinations would be within

the framework of a Board policy that had existed over a period of years and he had heard no arguments this morning that convinced him of the advisability of altering the policy.

Governor Robertson said that in each of the cases he would favor the granting of a voting permit instead of a section 301 determination.

Governor Shepardson stated that over a period of time it had seemed to him the Board was frequently straining a point in granting section 301 determinations. The use of voting permits would not appear to be particularly onerous, and if situations started getting out of hand this would provide a means of reviewing the circumstances and placing any needed limitations on the voting permits.

Governor Mitchell indicated that his views were similar to those of Governor Shepardson. He would be disposed to use voting permits in those cases that did not conform to his understanding of the spirit and intent of the legislation. He would grant limited voting permits, rather than section 301 determinations, in all of today's cases except that of Wheaton Bancorporation.

Governor Daane said he felt in principle that the Board should follow such a course.

Governor Balderston said he was not clear in his own mind about the wisest thing to do between now and such time as the holding company affiliate law might be repealed. The problem of maintaining consistency from one case to another was of concern to him.

Chairman Martin commented that he saw no solution to the problem except through legislation. If he were doing it on his own, he would not shift position until the problem had gone through the legislative process. He did not think this was particularly a good time for the Board to reverse a policy it had been following for a long period. In other words, he agreed with Governor Mills.

Governor Balderston again indicated that he considered it difficult to find a dividing line that could be applied from one case to another with consistency and fairness.

Mr. Hackley suggested that the alternatives appeared to be: (1) adhere to the Board's one-bank policy but change the definition of "extraordinary circumstances"; (2) reverse the one-bank policy and handle each case on an ad hoc basis; or (3) continue the Board's existing policy and push for legislation. He suggested the first, or compromise, approach.

Governor Mills inquired whether the Board could suitably propose repeal legislation yet in the same breath act in such a way as to reflect a view that the existing statute was important enough to warrant the Board in changing its policy of many years'

standing. He felt that it would be more difficult to work toward remedial legislation if the Board abandoned its current approach.

Mr. Hexter said he felt, as a broad statement, that the provisions of laws that were on the books should be obeyed. If there was ever a case, however, where an organization was justified in not adhering strictly to the letter of the law, this would be it. The staff was in general agreement that there was nothing of substantive importance to be gained by strict enforcement of the holding company affiliate law. He did not think that any shocking injury would be done, as far as respect for the law was concerned, by adhering to a one-bank policy. Such a policy might not be strictly in accord with the letter of the law, but in view of its long history the Board might conclude that a reversal of the policy was not essential.

Governor Balderston expressed agreement, particularly in the absence of sanctions that were meaningful and in view of the desirability of maintaining a posture of consistency. He did not see that any good result would be achieved short of legislation.

Chairman Martin noted that the Board members appeared to be rather evenly divided on the cases before the Board. He added that the Board would be taking on an additional supervisory load if it changed its policy, and he questioned whether the Board could do anything that would be effective by changing policy. However, a matter of judgment was involved.

It was noted that if limited voting permits were used this would mean that the question of granting a permit would have to come before the Board whenever there was a meeting of the stockholders of an affiliated bank. The Board would then have to exercise a judgment in the area of soundness of operations.

Governor Mills remarked that if the Board reached a position where it questioned the soundness of a bank and its administration in the course of considering a voting permit application, this could extend into the area of national and nonmember insured banks. The Board would thus superimpose a judgment over that of other regulatory agencies and risk a multiplying of interagency conflicts.

Governor Robertson commented that this was, nevertheless, what the statute specifically contemplated. He went on to emphasize that unless the holding company affiliate law was repealed it was the law of the land. In many cases where the Board had granted section 301 determinations no harm had resulted. However, this was a period when real harm could result from using corporations for the purpose of acquiring banks. This called for review of the situations involved, and the Board had authority to act on the basis of factors such as financial condition and character of management. It seemed to him that the Board could, without embarrassment to anyone, meet a problem that he thought was going to come to the fore and embarrass the Board in the absence of a one-bank

definition of bank holding company in the Bank Holding Company Act. This did not seem likely to be accomplished in the near future.

Governor Daane said that if he thought there was any reasonable hope of getting such legislation he would be inclined to go along with the view of Chairman Martin and Governors Balderston and Mills. If there was no real hope, he would be more sympathetic to reversal of the Board's present policy. Chairman Martin commented that no one could predict success in obtaining legislation. Nevertheless, the question seemed to him to be one of assuming an additional supervisory load without the prospect of accomplishing very much.

Governor Shepardson inquired whether there were any cases where determinations had been granted and unsavory situations had developed, to which Mr. Thompson replied that a recent review of the banks involved revealed only one problem bank. Mr. Solomon added there were a number of situations where financing of the acquisition of the bank was on a basis that the Board could hardly applaud. The corporation owning the bank might have borrowed practically all of the purchase price. But he doubted whether it would be advisable for the Board to try to sit in judgment on each individual case of that kind.

Governor Shepardson then stated that the whole problem seemed to come down to the fact that the Board really would not be able to accomplish very much if it attempted to do something more in this area than it had been doing. He added that upon further reflection he would be inclined to back away from what seemed to be essentially an exercise in futility.

The discussion reverted specifically to the requests before the Board, and section 301 determinations were granted in all cases, Governor Robertson dissenting with the statement that he believed the Board's present policy on section 301 cases should be reversed. Governors Mitchell and Daane also dissented from granting the requested determinations except in the case of Wheaton Bancorporation, for reasons indicated by their previous comments.

Letters sent to the five corporations involved pursuant to the foregoing action are attached as Items 4 through 8.

Bank holding company legislation. In a distributed memorandum dated January 13, 1965, from the Legal Division it was pointed out that on November 18, 1964, on the basis of the Legal Division's memorandum of October 30, 1964, relating to a possible "legislative program," the Board decided again to recommend to Congress a bill amending the Bank Holding Company Act in a form substantially like that recommended to the last Congress. This

would be a relatively short bill covering what the Board regarded as the more important desirable changes in the present law, although the transmittal letter would reiterate the Board's 1958 recommendation for enactment of a longer bill covering a number of additional changes. It was understood at the November 18 meeting, however, that the matter would again be submitted to the Board after consideration by the Legal Division of a suggestion that the "short" bill include a provision to exempt from the proposed "one-bank" definition of a bank holding company any family-owned corporation controlling a single bank.

Since November 18, suggestions for certain changes in the law that would affect the Board's proposed bill had been received from representatives of Belgian-American Bank & Trust Company of New York City, from Hershey Trust Company, Hershey, Pennsylvania, and from Representative St Germain of Rhode Island on behalf of certain mutual savings banks in that State. It had seemed desirable to the Legal Division to consider whether these suggestions, even though they might have some merit, were of sufficient importance to warrant incorporation in the Board's "short" form of bill.

After studying these matters the Legal Division recommended for reasons stated:

1. That, at least for the present, the Board take no position as to the desirability of exempting family-owned bank holding companies.

2. That, in accordance with the suggestion made by representatives of Belgian-American Bank & Trust Company, section 5(b) of the Board's bill, amending section 23A of the Federal Reserve Act, be changed to provide that section 23A shall not apply to "any extension of credit by a member bank to a bank holding company of which such bank is a subsidiary or to another subsidiary of such bank holding company, if made within one year after the effective date of this amendment to section 23A and pursuant to a contract entered into prior to January 1, 1965." (The January 1, 1965, date was arbitrarily selected in order to preclude the making of long-term commitments after introduction of the bill in order to evade the purposes of the statute.)

3. That, in accordance with the suggestion made by Hershey Trust Company, a new subsection (c) be inserted in section 1 of the Board's bill (with a redesignation of the present subsection (c) as subsection (d)), to read as follows:

> "(c) Subsection (c) of section 2 of the Act is amended to read as follows:
>
> > "'Bank' means any national banking association or any State bank, savings bank, or trust company, but shall not include (1) any trust company that does not receive deposits except in a fiduciary capacity, (2) any organization operating under section 25 or section 25(a) of the Federal Reserve Act, or (3) any organization that does not do business within the United States". (Underscoring indicates new language.)

(This amendment, incidentally, would correct a defect in the present law by specifically excluding "agreement corporations" operating under section 25 of the Federal Reserve Act.)

4. That the Board's bill, with the changes indicated, be sent to the Chairmen of the Banking and Currency Committees of Congress, along with a letter of transmittal in form attached to the memorandum.

5. That, after submission of the Board's bill to Congress, letters be sent to the law firm of Sullivan & Cromwell (representing Belgian-American Bank & Trust Company), to Hershey Trust Company, and to Representative St Germain, in the form of drafts attached to the memorandum.

In comments supplementing the memorandum, Mr. Hackley mentioned that an additional suggestion had been received. Western Bancorporation International Bank, an Edge corporation, was receiving deposits from banks controlled by the same bank holding company and this appeared to be in violation of section 6 of the Bank Holding Company Act. The New York Reserve Bank had suggested that any proposed legislation contain a remedial provision covering situations of this kind. The suggestion had some merit, but the Legal Division doubted whether the Board would wish to include such a provision in the "short" bill.

Discussion of the Legal Division's recommendations focused principally on the proposal received from Congressman St Germain, question being raised whether some effort should not be made to review this matter. The consensus was that the staff should study the proposal further with a view to determining whether, in light of additional facts, such a proposal should or should not be incorporated into the Board's bill. It was understood that final action by the Board authorizing the transmittal of the proposed legislation to the Congressional Committees would await the results of the further staff study. This contemplated also that the submission of the other bills constituting the Board's legislative package would be deferred until this particular question had been resolved.

Governor Robertson referred to the fact that in 1958 the Board had recommended an amendment of the Bank Holding Company Act to require Board approval of the expansion of a bank holding company system by absorption of independent banks into subsidiary banks of such system. In the 1960 Annual Report the Board withdrew this recommendation, but Governor Robertson felt that it should be reinstated. He recognized that the Board had discussed this possibility in connection with the Annual Report for 1963, at which time a majority of the Board had decided not to reinstate the

earlier recommendation. However, he wished to place his own position again on record.

In a discussion of the matter that followed, during which certain members of the Board indicated some disposition to feel that the question should be reviewed, Mr. Hexter noted that when the question had been raised previously the Legal Division presented the view that when any bank supervisory agency passes on a merger under the Bank Merger Act involving a holding company subsidiary bank, it presumably gives consideration to the effect of all aspects of the proposed merger on competition, including the effect on competition of bringing an additional bank into the holding company system. The same considerations should govern a bank supervisory agency in the case of a merger involving a holding company bank as in the case of an application to acquire a bank under the Bank Holding Company Act. Reinstatement of the previous recommendation at the present time might indicate that the Board doubted whether some other agency would properly take this factor into consideration, and the Legal Division questioned whether this would be an appropriate reason for seeking amendment of the Bank Holding Company Act.

Chairman Martin said that this was his reaction; he thought the Board would place itself in a difficult position if it argued in such manner.

Messrs. Bakke, Hexter, O'Connell, Shay, Hooff, Thompson, Smith, Donovan, Guth, Lyon, Rumbarger, and Noory then withdrew from the meeting and Mr. Furth, Consultant, entered the room.

Foreign lending by U. S. banks. There had been distributed a memorandum from Mr. Young dated January 11, 1965, noting that the clear need for correction of the U. S. balance of payments deficit raised questions as to possible consideration of types of further governmental action. In view of the part played by credit and capital outflow in the 1964 payments deficit, and also the European view that undue monetary liquidity had been a causal factor in this outflow, one area that undoubtedly needed examination for possible inclusion in any broad governmental program was that of alternative means of restraining foreign lending by U. S. banks.

Attached to Mr. Young's memorandum was a memorandum from President Hayes of the New York Reserve Bank dated December 21, 1964, proposing that the System launch a program of selective moral suasion, supported by some further moderate restraint on bank reserve availability. Also attached was a memorandum from Mr. Young dated January 8, 1965, suggesting a program for the next nine months that would buttress a moral suasion effort by amendment of the statement of general principles of Regulation A, Advances and Discounts by Federal Reserve Banks, and by a moderate tightening of bank reserve positions. Specifically, Mr. Young suggested alternative

amendments to Regulation A either of which would indicate that an increase in a member bank's foreign loans would be a consideration in determining upon the granting of advances and discounts by Reserve Banks. Reserve Bank Presidents would meet with the top officers of large member banks known to be active in foreign lending and explain to them what the Board had in mind by the amendment to Regulation A. It might even be suggested to the banks that for a period of from 6 to 9 months there be a standstill of foreign loan portfolios embracing the major industrial countries, and the Reserve Banks might ask member banks to supply information on foreign loan activities either at the time of requesting advances or in anticipation of such requests. The foregoing steps would be supported by reducing the free reserve position of the banks gradually to $150 million negative free reserves. In conclusion the memorandum suggested that it would be useful, as the program began to take form, to announce that the System was undertaking a study of the discount mechanism looking toward modernization of the mechanism with a view to meeting better the growth needs of the U. S. banking system. A memorandum concerning such a study was to be made available shortly to the Board for consideration.

Governor Balderston indicated that he would be in favor of proceeding expeditiously with amendment of Regulation A in an effort to meet the shorter run problem. The longer run problem seemed to

require thorough analysis on the basis of a study of the type mentioned in Mr. Young's memorandum because of the fundamental changes in discount window administration that would be involved and the change in emphasis that would result as between the discount function and other System policy instruments. He recognized that the longer run problem was before the Board only in the sense of a suggestion for the undertaking of a study while the short-run problem involved a suggestion that could be implemented quickly along lines described by Mr. Young.

Chairman Martin then turned for comment to Mr. Furth, who noted that a moral suasion program would involve principally a relatively small number of prominent banking organizations. In the circumstances such a program might have some chance of success, but the thought underlying Mr. Young's memorandum was it should have some legal basis. It might be ineffective and in a sense immoral to tell people to do something if there was no legal basis for the request. This backing would be provided by saying that extensive credits to foreigners would bring about a situation in which the Federal Reserve could be compelled to take general measures that might be inconsistent with optimum domestic developments and hence the objectives of the banks themselves. It could be said that actions on the part of a relatively few banks such as to compel the System to take measures that might have unfavorable repercussions

for the domestic economy would be considered an inappropriate way of conducting banking business.

Mr. Furth added that it would be in the interests of the banking system, and simpler of administration, if the banks would restrict their foreign lending and thus make unnecessary an extension of the interest equalization tax by way of the Gore amendment. The Regulation A approach could apply to all bank foreign lending, short term as well as long term. The main argument against the tax was the ease with which banks could avoid it by making loans of not more than one year and then renewing them, whereas the Regulation A approach would not be restricted to watching loans of more than one year. In other words, a discretionary mechanism would be provided whereas an extension of the tax would not leave an area of discretion.

Governor Daane suggested that the two approaches might not necessarily be mutually exclusive. It might be that an extension of the interest equalization tax could be made more effective through development of a moral suasion program backed by the Regulation A approach.

Governor Mitchell noted that he had asked Mr. Brill to prepare a memorandum giving his informal reactions to a program such as outlined in Mr. Young's memorandum, and it was understood that copies of the Brill memorandum would be distributed to the

members of the Board. It was also understood that further discussion of the general subject of bank foreign lending would take place at the meeting of the Board tomorrow.

All members of the staff except Mr. Sherman then withdrew from the meeting.

Presidency of Minneapolis Bank. Chairman Martin reported that Chairman Bean of the Federal Reserve Bank of Minneapolis had discussed with him the matter of locating a President of the Bank to succeed Mr. Deming, who had been appointed Under Secretary of the Treasury for Monetary Affairs. Chairman Bean indicated that the Board of Directors of the Reserve Bank would like to approach Paul W. McCracken, currently Professor of Economics at the University of Michigan.

Chairman Martin was authorized to inform Chairman Bean that if the position should be tendered to Mr. McCracken, with salary at the annual rate of $40,000, and it was found that he would accept, the Board of Governors would be prepared to approve his appointment.

The meeting then adjourned.

Secretary's Notes: Governor Shepardson approved on behalf of the Board on January 15, 1965, memoranda recommending the following actions relating to the Board's staff:

Appointment

Kendall R. Free as Digital Computer Programmer (Trainee), Division of Examinations, with basic annual salary at the rate of $5,165, effective the date of entrance upon duty.

Salary increases, effective January 17, 1965

Name and title	Division	Basic annual salary From	To
	Board Members' Offices		
Dorothy B. Saunders, Secretary to Gov. Daane		$ 9,535	$ 9,830
	Bank Operations		
D. Lewis McKee, Technical Assistant		10,125	10,960
Edwin G. White, Technical Assistant		9,830	10,605

Permission to engage in outside activity

Frances Lucile Griffin, Secretary, Division of Research and Statistics, to work as a secretary in a law office on a temporary part-time basis.

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

Letter to the Federal Reserve Bank of New York (attached Item No. 9) approving the appointment of Edward T. Desmond, James J. McGuiness, and Thomas P. McQueeney as examiners.

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

Appointment

Bonnie Jo Brooke as Statistical Assistant, Division of Research and Statistics, with basic annual salary at the rate of $5,000, effective the date of entrance upon duty.

Reemployment following maternity leave

Rita D. Brinley as Secretary, Division of International Finance, with basic annual salary at the rate of $6,615, effective January 25, 1965.

Acceptance of resignation

Thomas R. Beard, Economist, Division of Research and Statistics, effective at the close of business January 26, 1965.

Merritt Sherman
Secretary

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

Item No. 1
1/18/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1965

Board of Directors,
The Chase Manhattan Bank,
New York, New York.

Gentlemen:

The Board of Governors has approved an extension until July 26, 1965, of the time within which The Chase Manhattan Bank may establish an in-town branch at 208 Amsterdam Avenue, Borough of Manhattan. The establishment of this branch was authorized in a letter dated July 24, 1963.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

Item No. 2
1/18/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1965

Board of Directors,
Seaway National Bank of Chicago,
Chicago, Illinois.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Seaway National Bank of Chicago to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective as of the date it opened for business.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 3
1/18/65

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of COMMERCIAL BANCORP, INC., Miami, Florida, for permission to become a bank holding company by acquiring stock of three banks in Florida.

ORDER EXTENDING PERIOD OF TIME
PRESCRIBED BY PROVISO IN ORDER OF APPROVAL

WHEREAS, by Order dated November 16, 1964, the Board of Governors, pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(a)) and section 222.4(a) of Federal Reserve Regulation Y (12 CFR 222.4(a)(1)), approved the application of Commercial Bancorp, Inc., Miami, Florida, to become a bank holding company through the acquisition of a minimum of 80 per cent of the voting shares of each of the following banks located in Florida: Commercial Bank of Miami, Miami; Merchants Bank of Miami, West Miami; and Bank of Kendall, Kendall; and

WHEREAS, said Order was made subject to the proviso that the acquisition approved "shall not be consummated . . . (b) later than three months after said date [of Order]"; and

WHEREAS, Commercial Bancorp, Inc., has applied to the Board for an extension of time within which the approved acquisition may be consummated, and it appearing to the Board that good cause has been shown for the additional time requested and that such extension would not be inconsistent with the public interest;

IT IS HEREBY ORDERED, that the Board's Order of November 16, 1964, be, and it hereby is, amended so that the proviso relating to the time by which Commercial Bancorp, Inc., shall consummate the approved acquisition of stock shall read: "provided that the acquisition so approved shall not be consummated . . . (b) later than May 16, 1965."

Dated at Washington, D. C., this 18th day of January, 1965.

By Order of the Board of Governors.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

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

Item No. 4
1/18/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1965

Mr. Roy Dinsdale, Vice President,
Dinsdale Bros., Inc.,
Palmer, Nebraska.

Dear Mr. Dinsdale:

This refers to the request contained in your letter of November 28, 1964, submitted through the Federal Reserve Bank of Kansas City, for a determination by the Board of Governors of the Federal Reserve System as to the status of Dinsdale Bros., Inc., as a holding company affiliate.

From the information presented, the Board understands that Dinsdale Bros., Inc., is engaged in the ownership of real estate and live stock and the merchandising of grain; that it is a holding company affiliate by reason of the fact that it owns 778 (77.8%) of the 1,000 outstanding shares of capital stock of Lyon County State Bank, Rock Rapids, Iowa; 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 Dinsdale Bros., 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.

If, however, the facts should at any time indicate that Dinsdale Bros., 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.

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

Item No. 5
1/18/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1965

Schnitzler Corporation,
Froid, Montana.

Gentlemen:

This refers to the request contained in your letter dated December 10, 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 Schnitzler Corporation as a holding company affiliate.

From the information presented, the Board understands that Schnitzler Corporation was organized for the purposes of engaging in farming, buying and selling real and personal property, including oil land, investing, and owning securities of various organizations; that it owns 675 (67.5%) of the 1,000 outstanding shares of capital stock of First Realty Corporation, Newcastle, Wyoming; that it is a holding company affiliate as defined by section 2(c)(1) of the Banking Act of 1933 (12 U.S.C. 221a) by reason of the fact that it owns 1,320 (66%) of the 2,000 outstanding shares of capital stock of First State Bank of Newcastle, Newcastle, Wyoming; that it owns 82.5 (11%) of the 750 outstanding shares of capital stock of Culbertson State Bank, Culbertson, Montana; that it owns 90 (12%) of the 750 outstanding shares of capital stock of First State Bank, Froid, Montana; that it owns 200 shares of First Bank Stock Corporation, Minneapolis, 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 Schnitzler Corporation 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.

If, however, the facts should at any time indicate that Schnitzler Corporation might 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 stock even though not constituting control.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

Item No. 6
1/18/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1965

Mr. John T. Vucurevich, President,
Citizens Bancorporation,
Citizens Bank,
Vermillion, South Dakota.

Dear Mr. Vucurevich:

This refers to the request contained in your letter of October 12, 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 Citizens Bancorporation as a holding company affiliate.

From the information presented, the Board understands that Citizens Bancorporation was formed to engage in the insurance business at Vermillion and Wakonda, South Dakota, and to own control of Citizens Bank, Vermillion, South Dakota; that it is not engaged in any other business; that it is a holding company affiliate by reason of the fact that it owns 880 of the 1,000 outstanding shares of stock of the Citizens Bank, Vermillion, South Dakota; that it also owns 24 per cent of the outstanding shares of capital stock of State Bank of Bellingham, Bellingham, 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 Citizens Bancorporation 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.

If, however, the facts should at any time indicate that Citizens Bancorporation 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 a further determination of this matter at any time on the basis of the then existing facts, including additional acquisitions of bank stock even though not constituting control.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
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WASHINGTON, D. C. 20551

Item No. 7
1/18/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1965

Mr. John T. Vucurevich, President,
The Harlem Corporation,
Harlem, Montana.

Dear Mr. Vucurevich:

This refers to the request contained in the letter of November 17, 1964, from Mr. Wayne D. Ebel, Secretary of The Harlem Corporation, and 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 The Harlem Corporation as a holding company affiliate.

From the information presented, the Board understands that The Harlem Corporation was formed to engage in the insurance business and to invest in the majority stock of the Security State Bank, Harlem, Montana; that it is not engaged in any other business; that it is a holding company affiliate by reason of the fact that it owns 656 of the 800 outstanding shares of stock of the Security State Bank, Harlem, Montana; 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 The Harlem Corporation 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.

If, however, the facts should at any time indicate that The Harlem Corporation 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 a further determination of this matter at any time on the basis of the then existing facts, including additional acquisitions of bank stock even though not constituting control.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

Item No. 8
1/18/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1965

Mr. Edward O. Boshell, Jr., President,
Wheaton Bancorporation, Inc.,
38 South Dearborn Street,
Chicago, Illinois.

Dear Mr. Boshell:

This refers to the request contained in your letter of December 30, 1964, submitted through the Federal Reserve Bank of Chicago, for a determination by the Board of Governors of the Federal Reserve System as to the status of Wheaton Bancorporation, Inc., as a holding company affiliate.

From the information presented, the Board understands that Wheaton Bancorporation, Inc., is a holding company affiliate by reason of the fact that it owns 11,560 of the 20,000 outstanding shares of stock of Wheaton National Bank, Wheaton, Illinois; 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 Wheaton Bancorporation, 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.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

If, however, the facts should at any time indicate that Wheaton Bancorporation, 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.

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

Item No. 9
1/18/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1965

Mr. Howard D. Crosse, Vice President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Crosse:

In accordance with the request contained in your letter of January 11, 1965, the Board approves the appointments of Edward T. Desmond, James J. McGuiness and Thomas P. McQueeney, at present assistant examiners, as examiners for the Federal Reserve Bank of New York. Please advise the salary rates and the effective dates of the appointments.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.