The attached minutes of the meeting of the Board of Governors of the Federal Reserve System on January 19, 1965, which you have previously initialed, have been amended at the request of Governor Daane to revise his comments appearing in the first paragraph on page 9.

If you approve the minutes as amended, please initial below:

Governor Daane	
Chairman Martin	
Governor Robertson	
Governor Shepardson	
Governor Mitchell	

Minutes for January 19, 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 WM

Gov. Mills

Gov. Robertson R

Gov. Balderston CCB

Gov. Shepardson CNS

Gov. Mitchell GM

Gov. Daane

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, January 19, 1965. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
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. Johnson, Director, Division of Personnel Administration
Mr. Shay, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Leavitt, Assistant Director, Division of Examinations
Miss Hart, Senior Attorney, Legal Division
Mr. Egertson, Supervisory Review Examiner, Division of Examinations
Mr. Lyon, Review Examiner, Division of Examinations
Mr. Noory, Assistant Review Examiner, Division of Examinations
Mr. Furth, Consultant

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on January 18, 1965, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to the Bank.

Circulated or distributed items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved, the action being unanimous in each case except that Governor Robertson abstained from voting on Item No. 10:

	Item No.
Letter to The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, approving the establishment of a branch in the vicinity of Bleigh and Bustleton Avenues.	1
Letter to Union Bank and Trust Company, Grand Rapids, Michigan, approving the establishment of a branch in the vicinity of Leonard Street, N. E., and Plymouth Avenue, N. E., branch operations now conducted at 1225 Leonard Street, N. E., to be discontinued simultaneously with the establishment of the new branch.	2
Letter to Piedmont Trust Bank, Martinsville, Virginia, approving an investment in bank premises.	3
Letter to Progress National Bank, Toledo, Ohio, granting its request for permission to maintain reduced reserves.	4
Letter to the Federal Reserve Bank of Minneapolis waiving the assessment of a penalty incurred by Escanaba National Bank, Escanaba, Michigan, because of a deficiency in its required reserves.	5
Letter to the Federal Deposit Insurance Corporation regarding the application of Park State Bank, Milwaukee, Wisconsin, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	6
Letter to the Federal Deposit Insurance Corporation regarding the application of First State Bank, Bangs, Texas, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	7

	Item No.
Letter to the Federal Deposit Insurance Corporation regarding the application of Corydon State Bank, Corydon, Iowa, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	8
Letter to the Federal Reserve Bank of Minneapolis approving the appointment of Maxine M. Crider as a Federal Reserve Agent's Representative at the Helena Branch.	9
Letter to Flabanco, Inc., Lake Worth, Florida, granting a determination exempting it from all holding company affiliate requirements except for the purposes of section 23A of the Federal Reserve Act.	10

In connection with the request of Progress National Bank, Toledo, Ohio, for permission to maintain reduced reserves (Item No. 4), Mr. Farrell mentioned that there was coming before the Board for consideration a request for termination of the designation of Toledo as a reserve city. It was the Board's view, however, that this circumstance did not warrant deferring action on the request of Progress National Bank.

In connection with the appointment of Maxine M. Crider as a Federal Reserve Agent's Representative at the Helena Branch (Item No. 9), Mr. Johnson commented, in reply to a question relating to the relatively low salary classification of the employee, that there were not too many people at this small branch who would qualify to serve in the capacity of Agent's Representative, particularly since the currency function was one of the larger operations.

He also mentioned that there were two other Agent's Representatives at the Helena Branch, which indicated that Mrs. Crider's services probably would be needed only sparingly.

Application of Security-Peoples Trust Company. There had been distributed drafts of a proposed order and statement reflecting approval by the Board on January 7, 1965, of the application of Security-Peoples Trust Company, Erie, Pennsylvania, for permission to merge with The Girard Battles National Bank, Girard, Pennsylvania. A dissenting statement by Governor Robertson also had been distributed.

Governor Mitchell outlined a number of suggested changes in the proposed majority statement, and after discussion of these suggestions it was understood that the Legal Division would review them to determine whether they could be woven into a revised draft of majority statement that would be acceptable to all members of the Board who had voted to approve the merger, an alternative possibility being that Governor Mitchell might prefer to issue a concurring statement.

Messrs. Farrell, Johnson, Shay, Hooff, Egertson, Lyon, and Noory then withdrew, as did Miss Hart, and Messrs. Young, Adviser to the Board and Director, Division of International Finance, Noyes, Adviser to the Board, and Brill, Director, Division of Research and Statistics, entered the room.

Legislation regarding Reserve Bank advances. In accordance with the Board's discussion on November 18, 1964, there had been distributed a memorandum from Mr. Hackley dated January 15, 1965, submitting a revised draft of proposed letter to the Chairmen of the Banking and Currency Committees of Congress again recommending legislation that would permit member banks to borrow from Federal Reserve Banks on the security of any sound assets without paying a penalty rate of interest. The memorandum, which identified changes from the draft letter previously considered by the Board, also noted that the proposed bill to be transmitted would be identical with the draft bill recommended by the Board in August 1963.

Certain suggestions were made by members of the Board for changes in the proposed letter in the interest of clarification and emphasis, and it was understood that these suggestions would be taken into account in preparing the letter in final form. It was also understood that the letter would be transmitted to the Chairmen of the Banking and Currency Committees at the same time as letters recommending other changes in the law that the Board had previously approved as parts of a legislative package.

Foreign lending by banks. Pursuant to the understanding at yesterday's meeting, there was further discussion of alternative approaches to the problem of lending by U. S. banks to foreigners, a factor that had been contributing to the balance of payments deficit. The discussion was again based on the material distributed with Mr. Young's memorandum of January 11, 1965, which included a memorandum from President Hayes of the New York Reserve Bank dated December 21, 1964, suggesting a program of selective moral suasion and a memorandum from Mr. Young dated January 8, 1965, proposing that such an effort be buttressed by amending the general principles of Regulation A, Advances and Discounts by Federal Reserve Banks. Both Mr. Hayes and Mr. Young also suggested a moderate tightening of bank reserve positions as part of the program. There had also been distributed a memorandum from Mr. Brill dated January 18, 1965, reflecting his personal reactions to the Hayes-Young memoranda.

Mr. Young commented that the deficit in the U. S. balance of payments for the fourth quarter of 1964 apparently would develop to have run at around a $6 billion annual rate, producing a deficit for the year of around $3 billion, only a modest reduction from 1963. When published, the figures would create concern in international financial markets, and the U. S. seemed certain to lose quite a bit of gold in the months ahead. The U. S. also would have to pay to the International Monetary Fund in the fall a $258 million gold subscription in consequence of the increase in Fund quotas, and other countries similarly required to make gold contributions probably would be drawing some of the gold from the U. S., which might mean a further loss of perhaps $100 million from the U. S. gold stock. The balance of payments deficit reflected substantially the extent of capital outflow. In the circumstances something had to be done, and Mr. Hayes had suggested an effort at selective moral suasion, sponsored jointly by the Treasury and the Federal Reserve System. It had occurred to Mr. Young that perhaps a better approach--one with more bite in it--would be to amend Regulation A to supplement any moral suasion effort. Two alternative amendments had been suggested, either one of which should accomplish the purpose of indicating that when a member bank wished to borrow from a Reserve Bank the extent of its foreign lending would be taken into account. In any case, a Federal Reserve program had to be looked upon as supplementary to a possible extension of the interest equalization tax to longer term foreign lending by banks, a step that the Treasury would have to consider through use of the so-called Gore amendment. And whatever was done would need to be made effective by some reduction in the availability of reserves to the banking system. In that respect, the program he (Mr. Young) had suggested was quite a modest one. It was not intended to stop bank credit expansion, but only to reduce--by perhaps 1 per cent or a little more--the rate of recent expansion. It would, however, no doubt result in some increase in discounting and in full resort by large banks to the Federal funds market, to which they had been resorting freely for the past year.

There followed a general discussion during which Governor Mills expressed the view that the balance of payments situation deserved drastic action. He felt that basically this action should be in the area of fiscal controls, whether in the form of exchange control, extension of the interest equalization tax, or controls over tourist expenditures. Sternness was the only thing that would be recognized abroad and understood by the business and financial community. When it came to Regulation A, he was fearful of distorting its role as a general control over the supplying of reserves through the discount window, traditionally the borrowing facility of last resort for member banks. Therefore, he did not enthuse about its use for punitive purposes, and he found Mr. Brill's arguments in this regard quite persuasive. He was not fearful, on the other hand, that some cutback in the supply of reserves and bank credit would be damaging to the domestic economy, for he thought some curtailment was overdue.

Governor Daane said he was not particularly anxious that the Board go out of its way to spell out the appropriate purposes of member bank borrowing in Regulation A. But the present situation was one where this needed to be done, in particular because it would provide a better springboard for exercising moral suasion along the lines urged by President Hayes. Perhaps something could be done via the bank examination route, but he was a little skeptical because this might tend to distort the purposes of the examining function and also because of the time lag in the examination procedure. National banks definitely should be brought in under any program; a full measure of supervisory support from that quarter was needed. He subscribed fully to the seriousness of the present problem and to the need on the part of the Federal Reserve to do everything within its power in the monetary area--consistent with its over-all objectives--to deter capital outflows. The Regulation A approach might have some effect, in company with a program of moral suasion, and it would seem appropriate to think about some reduction in reserve availability to make the whole program effective.

Governor Robertson did not feel that a change in Regulation A such as proposed would have much more than a psychological effect. Banks engaged in foreign lending could meet their reserve needs through the Federal funds market or through other means of borrowing instead of resorting to the discount window. If Regulation A were amended to deal with this particular problem, the System would be thrown squarely into the position of picking and choosing areas to which it wanted or did not want to direct funds, which would get away from the general credit control principle. He did not think that such a step was needed at this juncture. As to moral suasion, it could better be exerted by the President, in his opinion, than by the Federal Reserve System. The interest equalization tax could be extended, through legislation, to short-term as well as longer term foreign lending by banks, with the extension made retroactive. This would forestall capital outflow through bank lending, and it could be coupled with an attack on capital outflow through direct corporate investments. While he did not have strong feelings, if he had to make the decision himself, he would be averse to the use of Regulation A.

Governor Shepardson agreed that without question something needed to be done, and also that whatever was done by way of legislation, regulation, or moral suasion, a reduction in the availability of reserves would be needed to make the program effective. Personally he did not like the moral suasion approach, for it penalized the parties who were willing to go along with it as against others who were not. If used, moral suasion should be exerted through the President to be most effective. On Regulation A, he felt much like Governor Robertson. He would reluctantly consider its use only if such a move seemed to be necessary in the final analysis.

Governor Mitchell agreed that it was essential to get the balance of payments in shape. In the event of a domestic economic downturn, monetary policy should be available for appropriate use, but as things stood the use of monetary policy to meet domestic objectives was constrained. Furthermore, in dealing with European counterparts on the question of international liquidity the U. S. should be talking from a position of surplus rather than deficit. In these circumstances he felt that the System should be doing something soon. He did not particularly like the use of a program of moral suasion. Much of what Mr. Hayes said was persuasive, and with some changes what Mr. Hayes suggested might be the best available procedure, but there was a different procedure that he thought would be suitable and appropriate. He would propose dropping Regulation Q ceilings, which would curb the availability of funds to banks doing the principal foreign lending and put them under some pressure, while small banks should not be hurt particularly. In his view, if the matter was properly handled, it should be possible to have some form of moral suasion without imposing restraint on bank credit availability as a quid pro quo. Bank earnings had been at an all-time high, at least in recent experience, and he saw no need for an incentive to be held out to the banks to go along with a program of moral suasion.

Governor Mitchell went on to say that he shared the views that had been expressed about the use of Regulation A, and in any event he did not think that such an effort would accomplish a great deal. Potential leakages would be too great to make this approach operative. The Federal funds market was available, and there could be discount window borrowing by banks other than those the Federal Reserve was trying to reach. Further, it would be virtually impossible, considering the ways in which large bank portfolios were managed, to stop the thing the Federal Reserve was trying to stop. Funds could be rolled around in ways that discount officers could hardly uncover.

Governor Mitchell observed that the situation was one in which the purpose of foreign lending, not the term of a loan, would determine whether the loan was appropriate. If foreign lending was not primarily for the financing of U. S. exports, it should not be considered appropriate. One of the persuasive things about Mr. Hayes' memorandum was that it contemplated looking at the purpose of foreign loans. But Governor Mitchell did not feel that the initiation of a program of moral suasion should be delegated to the Reserve Bank Presidents. It was understood that no more than about nine banks were principally involved. Therefore, the Chairman of the Board of Governors could invite the chief executives of those banks to come to Washington to discuss the problem around the table. It might be that under such a procedure moral suasion would work. Perhaps just indicating to the bankers the seriousness of the problem would bring results.

In further discussion Governor Mills pointed out that bank foreign lending was only part of the total problem of capital outflow. Corporate investments abroad, either direct or through subsidiaries, constituted another significant factor. Governor Daane agreed that the total problem deserved attention, but he noted that the Federal Reserve's particular responsibility was in the bank credit area. He felt, therefore, that everything possible should be done in this area, as part of the over-all effort that was needed to bring the balance of payments situation under control. While he did not like the Regulation A approach, he did think there would be some advantage in using it in company with a program of moral suasion. He had been led to believe, however, that quite a number of banks should be brought into the picture from the standpoint of their foreign lending operations. On the last point Mr. Young commented that the best figures available on bank foreign lending related to commitments for longer term loans. These figures indicated that about nine to twelve banks accounted for the bulk of this type of lending. In the area of shorter term lending, a larger number of banks became involved. One concern about going to a limited group of banks to seek their cooperation was the possibility that other banks might move into the picture. Mr. Young also discussed rates on foreign loans understood to be available to U. S. banks. In view of the attractiveness of these rates, a difficult problem was posed from the standpoint of the economics of the situation. The differential in rates available from foreign loans might about offset the tax levied if the interest equalization tax should be extended to over-one-year bank loans under the Gore amendment.

After discussion as to whether the volume of foreign lending appeared to reflect more the efforts of foreigners in seeking loans from American banks or aggressiveness on the part of U. S. banks in searching for borrowers, Governor Robertson commented that Governor Mitchell's idea of having representatives of the banks principally engaged in foreign lending meet with the Board in Washington might be coupled with a program whereby the Reserve Banks would take care of discussion with the balance of the banks making foreign loans. Governor Daane indicated that he was attracted by this suggestion. Governor Mitchell then commented that he was not attracted to a moral suasion effort as a first choice. His first choice would be to extend the interest equalization tax to all foreign lending by banks, with the rate of tax flexible at the discretion of the

Secretary of the Treasury. Governor Daane noted that this would involve the legislative process, which could be time-consuming, but Governor Robertson observed that the current interest equalization tax was effective before it became law; also that it was made effective on a retroactive basis. Governor Daane observed that the interest equalization tax, as presently in effect, would be subject to loopholes if extended by the Gore amendment to long-term bank lending because short-term loans could be renewed and also because of the attractiveness of rates on foreign loans.

Governor Mills noted that the voluntary credit restraint program instituted in 1951 operated for only a short time before being discarded, and other members of the Board commented that the program did not appear to have been notably successful during the period of its existence. Governor Daane said, however, that in view of the urgency of the balance of payments situation he still felt that the Federal Reserve should do what it could. For whatever value they might have, he would be inclined to try the Regulation A approach and also moral suasion. If such a program should work for only a short time, nevertheless that much good would have been done. A legislative program should involve extension of the interest equalization tax to bank foreign lending, short or long, but there was the time element he had mentioned earlier.

Governor Shepardson said he was not convinced that moral suasion was a program on which to rely. In the first place, it was not equitable to all; parties who went along with it were penalized vis-a-vis those who did not. The only way to get an equitable and significant result over any period of time was to obtain legislation broad enough to cover the whole field that was involved. He had doubts about moral suasion except possibly as a short-run stopgap.

Chairman Martin then suggested that the members of the Board continue to study the problem, and the matter was left on that basis.

The meeting then adjourned.

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

Letter to the Federal Reserve Bank of Dallas (attached Item No. 11) approving the appointment of Carroll D. Blake as assistant examiner.

Memorandum from Mr. Schwartz, Director of the Division of Data Processing, dated January 15, 1965, recommending that a new programmer position be provided in the Financial Statistics Section of that Division, it being understood that the position would be regarded as established when a programmer was actually hired.

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

Appointments

Robert E. Kopp as Summer Law Clerk, Legal Division, with basic annual salary at the rate of $5,000, effective the date of entrance upon duty.

Herbert D. Miller, Jr., as Summer Law Clerk, Legal Division, with basic annual salary at the rate of $5,000, effective the date of entrance upon duty.

Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 1
1/19/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 19, 1965

Board of Directors,
The First Pennsylvania Banking and Trust
Company,
Philadelphia, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The First Pennsylvania Banking and Trust Company of a branch in the vicinity of the intersection of Bleigh and Bustleton Avenues, Philadelphia, Pennsylvania, 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 25, D. C.

Item No. 2
1/19/65

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

January 19, 1965

Board of Directors,
Union Bank and Trust Company,
Grand Rapids, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Union Bank and Trust Company, Grand Rapids, Michigan, in the vicinity of the intersection of Leonard Street, N.E., and Plymouth Avenue, N.E., Grand Rapids, Michigan, provided the branch is established within one year from the date of this letter and provided further that branch operations now conducted at 1225 Leonard Street, N.E., Grand Rapids, are discontinued simultaneously with the establishment of the new branch.

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. 3
1/19/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 19, 1965

Board of Directors,
Piedmont Trust Bank,
Martinsville, Virginia.

Gentlemen:

Pursuant to the provisions of Section 24A of the Federal Reserve Act, the Board of Governors of the Federal Reserve System approves an investment in bank premises by Piedmont Trust Bank, Martinsville, Virginia, in an amount not to exceed $151,500. This amount consists of $106,500 for the purchase of a lot adjoining the main office property and $45,000 for the grading and paving of such lot and the construction of drive-in teller facilities.

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. 4
1/19/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 19, 1965

Board of Directors,
Progress National Bank,
Toledo, Ohio.

Gentlemen:

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

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

Item No. 5
1/19/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 19, 1965

Mr. Frederick L. Deming, President,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota. 55440

Dear Mr. Deming:

This refers to your letter of December 21, 1964, regarding the penalty of $105.13 incurred by the Escanaba National Bank, Escanaba, Michigan, on a deficiency in its required reserves for the period ended December 9, 1964.

It is noted that (1) this deficiency occurred because of errors made on a worksheet which had recently been adopted to enable the bank to maintain closer surveillance over its reserve position; (2) your Bank is satisfied that the errors were inadvertent; and (3) the bank has rather consistently maintained a reserve balance in excess of requirements.

In the circumstances, and in view of your recommendation, the Board authorizes your Bank to waive the assessment of the penalty of $105.13 for the reserve computation period ended December 9, 1964.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 6
1/19/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 19, 1965

The Honorable Joseph W. Barr,
Chairman,
Federal Deposit Insurance Corporation,
Washington, D. C. 20429

Dear Mr. Barr:

Reference is made to your letter of December 29, 1964, concerning the application of Park State Bank, Milwaukee, Wisconsin, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

There have been no corrective programs urged upon the bank, or agreed to by it, which have not been fully consummated, and, in the Board's opinion, there are no such programs that it would be advisable to incorporate as conditions of admitting the bank to membership in the Corporation as a nonmember of the Federal Reserve System.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 7
1/19/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 19, 1965

The Honorable Joseph W. Barr, Chairman,
Federal Deposit Insurance Corporation,
Washington, D. C. 20429

Dear Mr. Barr:

Reference is made to your letter of December 29, 1964, concerning the application of First State Bank, Bangs, Texas, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

The Reserve Bank's transmittal letter to subject bank in connection with the report of examination as of June 30, 1964, urged the bank's board of directors to make every effort to strengthen its capital accounts.

There have been no other corrective programs urged upon the bank, or agreed to by it, which have not been fully consummated, and, in the Board's opinion, there are no such programs that it would be advisable to incorporate as conditions of admitting the bank to membership in the Corporation as a nonmember of the Federal Reserve System.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 8
1/19/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 19, 1965.

The Honorable Joseph W. Barr,
Chairman,
Federal Deposit Insurance Corporation,
Washington, D. C. 20429

Dear Mr. Barr:

Reference is made to your letter of December 28, 1964, concerning the application of Corydon State Bank, Corydon, Iowa, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

Subject is viewed as a problem bank, based on an examination conducted by the Federal Reserve Bank of Chicago as of June 27, 1964. The total of classified loans plus 50 per cent of other loans specially mentioned was equal to 55 per cent of the bank's gross capital structure. The management of the bank at the time of the examination was considered poor. The chief executive officer apparently lacks the ability to provide competent management for the bank. The bank does have a new president, who has been a director of the bank for many years, and during the last examination he expressed a positive attitude toward improving the bank's general condition. Subject bank has also been a frequent borrower from the Federal Reserve Bank of Chicago in order to meet its reserve requirements.

In a transmittal letter forwarding the examination report, the bank's board of directors was urged to take prompt and effective action to improve the condition of the loan portfolio. The board of directors was urged to reduce the bank's loan account to proportions that could be handled by the official staff or to strengthen management so the present volume could be more adequately serviced.

There have been no other corrective programs urged upon the bank, or agreed to by it, which have not been fully consummated, and, in the Board's opinion, there are no such programs that it would be advisable to incorporate as conditions of admitting the bank to membership in the Corporation as a nonmember of the Federal Reserve System.

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
1/19/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 19, 1965

Mr. Atherton Bean,
Federal Reserve Agent,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota. 55440.

Dear Mr. Bean:

In accordance with the request contained in your letter of January 5, 1965, the Board of Governors approves the appointment of Mrs. Maxine M. Crider as a Federal Reserve Agent's Representative at the Helena Branch.

This approval is given with the understanding that Mrs. Crider will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of her duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that office, her responsibility will be to the Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of her duties as Federal Reserve Agent's Representative, Mrs. Crider may, with the approval of the Federal Reserve Agent and the Vice President in charge of the Helena Branch, perform such work for the Branch as will not be inconsistent with the duties as Federal Reserve Agent's Representative.

It will be appreciated if Mrs. Crider is fully informed of the importance of her responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

Please have Mrs. Crider execute the usual Oath of Office which should be forwarded to the Board of Governors along with notification of the effective date of her appointment.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Item No. 10
1/19/65

January 19, 1965.

Mr. R. W. Talmo, President,
Flabanco, Inc.,
P. O. Box 1449,
Lake Worth, Florida.

Dear Mr. Talmo:

This refers to the request contained in your letter of January 13, 1965, submitted through the Federal Reserve Bank of Atlanta, for a determination by the Board of Governors of the Federal Reserve System as to the status of Flabanco, Inc., as a holding company affiliate.

From the information presented, the Board understands that Flabanco, Inc., is a holding company affiliate by reason of the fact that it owns 17,600 of the 35,000 outstanding shares of stock of Commerce National Bank in Lake Worth, Lake Worth, Florida; 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 Flabanco, 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 Flabanco, 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. 11
1/19/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 19, 1965.

CONFIDENTIAL (FR)

Mr. Thomas R. Sullivan, Vice President,
Federal Reserve Bank of Dallas,
Dallas, Texas. 75222

Dear Mr. Sullivan:

In accordance with the request contained in your letter of January 13, 1965, the Board approves the appointment of Carroll D. Blake as an assistant examiner for the Federal Reserve Bank of Dallas, effective today.

It is noted that Mr. Blake is indebted to The Farmers & Merchants National Bank of Kaufman, Kaufman, Texas, and Republic National Bank of Dallas, Dallas, Texas. Accordingly, the Board's approval of the appointment of Mr. Blake is given with the understanding that he will not participate in any examination of either bank to which his indebtedness remains unliquidated.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.