

Minutes for February 26, 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 proposed to place in the record of policy actions required to be kept under the provisions of section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 8 Amendment to Regulation M, Foreign Branches of National Banks.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin

M

Gov. Mills

R

Gov. Robertson

Gov. Balderston

CCB

Gov. Shepardson

SSP

Gov. Mitchell

MM

Gov. Daane

DD

Minutes of the Board of Governors of the Federal Reserve System on Friday, February 26, 1965. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Brill, Director, Division of Research and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Holland, Associate Director, Division of Research and Statistics
Mr. Koch, Associate Director, Division of Research and Statistics
Mr. Partee, Adviser, Division of Research and Statistics
Mr. Solomon, Adviser, Division of Research and Statistics
Mr. Katz, Adviser, Division of International Finance
Mr. Reynolds, Associate Adviser, Division of International Finance
Mr. Spencer, General Assistant, Office of the Secretary
Mr. Axilrod, Chief, Government Finance Section, Division of Research and Statistics
Mr. Eckert, Chief, Banking Section, Division of Research and Statistics
Mr. Keir, Chief, Capital Markets Section, Division of Research and Statistics
Mr. Ettin, Economist, Division of Research and Statistics
Mr. Baker, Economist, Division of International Finance
Mr. Furth, Consultant

Money market review. Mr. Axilrod reported on recent developments in the Government securities market, during the course of which

2/26/65

-2-

he referred to tables that had been distributed affording perspective on the money market and on bank reserve utilization. Mr. Eckert summarized bank credit developments, following which Mr. Baker reviewed foreign exchange market developments.

All members of the staff except Messrs. Sherman, Kenyon, Solomon (Examinations), Furth, and Spencer then withdrew from the meeting and the following entered the room:

Mr. Hackley, General Counsel
 Mr. Hooff, Assistant General Counsel
 Mr. Goodman, Assistant Director, Division of Examinations
 Mr. Leavitt, Assistant Director, Division of Examinations
 Mr. Forrestal, Attorney, Legal Division
 Mr. Egertson, Supervisory Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on February 25, 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.

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

Letter to Security Trust Company, Rochester, New York,
 approving the establishment of a branch at 2826-2836
 Monroe Avenue, Town of Brighton.

Item No.

1

2/26/65

-3-

	<u>Item No.</u>
Letter to Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, approving the establishment of a branch in the St. Denis Shopping Center, Jefferson County.	2
Letter to Wells Fargo Bank, San Francisco, California, approving the establishment of a branch in Hollister.	3
Letter to County Bank of Santa Cruz, Santa Cruz, California, approving an extension of time to establish a branch near Front and Cooper Streets.	4
Letter to the Federal Deposit Insurance Corporation regarding the application of Farmers' State Bank, Middletown, Indiana, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	5
Letter to the Bureau of the Budget reporting on bill S. 38, "To repeal the interest equalization tax."	6

Request to retire preferred stock (Item No. 7). There had been distributed a memorandum from the Division of Examinations dated February 23, 1965, discussing a request by Farmers and Merchants Bank of Central California, Lodi, California, for permission to retire its outstanding preferred stock.

The memorandum stated that the bank's shareholders had approved the issuance of \$3 million of capital notes in connection with the proposal to retire the preferred stock. Following retirement of the preferred stock and issuance of the capital notes, the notes would represent about 45 per cent of the bank's total capital structure. Upon inquiry of the Federal Reserve Bank of San Francisco as to Farmers and Merchants Bank's reason for proposing to sell such a large amount

2/26/65

-4-

of capital debentures, the Reserve Bank indicated that it understood the member bank wished to provide a cushion for anticipated future growth.

The memorandum went on to point out that the Board's Annual Report for 1952 contained a policy record entry regarding the proposed issuance of capital notes by a State member bank in replacement for preferred stock. The Board took the position at that time that it did not look with favor on the increasing tendency of banks to turn to capital notes and debentures as against equity capital as a means of augmenting the protection afforded to depositors. Approval of the request by Farmers and Merchants Bank might seem to conflict with the 1952 statement. However, the Division of Examinations recommended that the request be approved; the capital of Farmers and Merchants Bank was adequate and would be reasonably adequate after retirement of the preferred stock even if no new capital funds were provided.

After discussion, the request of Farmers and Merchants Bank for permission to retire its preferred stock was approved unanimously. A copy of the letter sent to that bank is attached as Item No. 7.

Question had been raised during consideration of the aforementioned matter whether approval of the request should necessarily be regarded as constituting a policy action reversing the Board's 1952 position regarding the use of capital notes and debentures by a State

2/26/65

-5-

member bank in lieu of capital stock. It was noted that an action taken in the light of all the circumstances surrounding a specific request might be distinguishable from a definition of general policy. Agreement was indicated with a suggestion that a draft letter to all Reserve Banks dealing on a general basis with the problem raised by Farmers and Merchants Bank's request be prepared. The question whether a policy position should be taken could then be discussed further when the draft letter was before the Board.

Application of Commercial State Bank. There had been distributed a memorandum from the Division of Examinations dated February 24, 1965, with regard to an application by Commercial State Bank, Boise, Idaho, a proposed new bank, for membership in the Federal Reserve System.

The memorandum pointed out that while the records of the bank would reflect ownership by certain individuals who were residents of the State of Idaho, with the exception of one, at least 52 per cent of the stock actually would be controlled by officers and directors of The Continental Bank and Trust Company, Salt Lake City, Utah. The information as to the true ownership of the bank had been revealed to the Federal Reserve Bank of San Francisco by President K. J. Sullivan of Continental Bank and Trust Company. Mr. Sullivan indicated that he would have preferred that the true ownership of the bank be known publicly; however, the Idaho organizers reportedly felt a charter might not have been granted if the true ownership had been revealed to the State authorities.

2/26/65

-6-

The Division raised the question whether the Board felt that the true ownership of the bank should be made known officially to the State authorities. It was noted that if the bank was admitted to System membership the report of the Reserve Bank's first examination of the bank would reveal the true ownership, and the State authorities would receive a copy of the report.

The memorandum also pointed out that another problem connected with the membership application was the inadequacy of the proposed capital structure. In the opinion of the Division of Examinations the capital structure of the bank should be increased substantially, on the basis of projected deposits, and the Division was not prepared to recommend favorably on the application unless additional capital funds were provided. Representatives of the Federal Deposit Insurance Corporation also were of the opinion that the proposed capital structure was not adequate. First, however, the Division of Examinations wished to have the Board's view on admitting the bank to membership when the State charter had been approved with the organizers withholding certain pertinent information from State authorities. This question should be considered prior to directing efforts toward obtaining more capital funds.

At the Board's request, Mr. Leavitt summarized the information presented in the memorandum of February 24, emphasizing the two questions relating to the membership application that should be considered.

2/26/65

During the discussion that followed, Governor Robertson indicated he did not feel that the information about the true ownership of Commercial State Bank, having come to the Board's attention, should be withheld from the Idaho State banking authorities. Moreover, he felt the membership application should be denied on the ground that the proposed bank's capital structure was inadequate. The question of the manner in which the Board should go about informing the State authorities concerning the bank's ownership was then considered. It was recognized, in this connection, that the Idaho banking authorities might already be aware of the ownership situation but had nevertheless elected to grant the organizers of the bank a charter.

At the conclusion of this discussion, it was suggested that a letter be sent to the organizers of Commercial State Bank that at the outset would make evident the Board's knowledge of the true ownership and then would go on to advise that the membership application was being denied because of inadequate capital funds, such letter to be transmitted through the Federal Reserve Bank of San Francisco with a copy to the Idaho State banking authorities. It was understood, however, that before such a letter was transmitted, the staff would advise the Federal Reserve Bank of San Francisco informally of the Board's views.

Secretary's Note: The subsequent discussion with the Reserve Bank resulted in a decision by the Division of Examinations to present another memorandum to the Board for consideration.

2/26/65

-8-

Amendment to Regulation M (Item No. 8). At the meeting on January 28, 1965, the Board considered a proposed amendment to Regulation M, Foreign Branches of National Banks, that would permit overseas branches of national banks to pay preferential rates of interest on deposits of their officers and employees if the branches were located in countries where such a procedure would be consistent with local law and practice. It was understood at that time that the Federal Reserve Banks, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation would be invited to comment on the proposed amendment.

There now had been distributed a memorandum dated February 23, 1965, from the Legal and Examinations Divisions indicating that favorable replies had been received. It was recommended, therefore, that the Board adopt the proposed amendment.

The amendment to Regulation M was approved unanimously, effective March 1, 1965. A copy of the amendment, in form transmitted to the Federal Register, is attached as Item No. 8.

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 Cleveland (attached Item No. 9) approving the appointment of Horst K. Marowsky as assistant examiner.

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

2/26/65

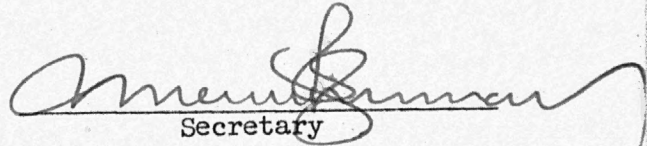
-9-

Appointment

Gloria J. Ogden as Secretary, Office of the Secretary, with basic annual salary at the rate of \$5,000, effective the date of entrance upon duty.

Salary increase

Jane C. Charuhas, Training Technician, Division of Examinations, from \$6,060 to \$6,450 per annum, effective February 28, 1965.


Secretary

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 26, 1965.

Board of Directors,
Security Trust Company,
Rochester, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Security Trust Company, Rochester, New York, of a branch at 2826-2836 Monroe Avenue, Town of Brighton (unincorporated area), Monroe County, New York, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 26, 1965.

Board of Directors,
Citizens Fidelity Bank and Trust Company,
Louisville, Kentucky.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, of a branch in the St. Denis Shopping Center in the vicinity of the intersection of Cane Run Road and Hartlage Avenue, Jefferson County, Kentucky, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 3
2/26/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 26, 1965.

Board of Directors,
Wells Fargo Bank,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Wells Fargo Bank, San Francisco, California, of a branch in the downtown area of the city of Hollister, San Benito County, California, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 26, 1965.

Board of Directors,
County Bank of Santa Cruz,
Santa Cruz, California.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to September 16, 1965, the time within which County Bank of Santa Cruz, Santa Cruz, California, may establish a branch in the vicinity of the intersection of Front and Cooper Streets, Santa Cruz, California.

In granting this eighth extension of time, the Board has taken particular note that construction of the branch will begin this month.

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
2/26/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 26, 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 February 12, 1965, concerning the application of Farmers' State Bank, Middletown, Indiana, 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 there are no such programs that the Board would advise be incorporated 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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 1, 1965.

Mr. Phillip S. Hughes,
Assistant Director for
Legislative Reference,
Bureau of the Budget,
Washington, D. C. 20503

Dear Mr. Hughes:

Your Legislative Referral Memorandum, dated February 18, 1965, requested the views of the Board on the bill S. 38, "To repeal the interest equalization tax".

The purpose of the tax imposed by the Interest Equalization Tax Act, approved September 2, 1964, was to aid the balance of payments position of the United States. In his message of February 10, 1965, to the Congress, the President urged several courses of action to improve the international payments position of this country and to strengthen confidence in the dollar. Among these were his requests that the Congress extend the Interest Equalization Tax Act for two years beyond December 31, 1965, the present expiration date in the law, and that the Act be amended to broaden its coverage to nonbank credits of one to three year-maturities. At the time of his message, the President, by Executive Order 11198, exercised the authority in the Gore Amendment to the Interest Equalization Tax Act and applied the tax to bank loans with maturities of one year or more.

The Board shares the President's concern about the deterioration in the United States balance of payments, and, accordingly, would oppose repeal of the interest equalization tax.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 7
2/26/65

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 26, 1965.



Board of Directors,
Farmers and Merchants Bank of Central California,
Lodi, California.

Gentlemen:

The Board of Governors of the Federal Reserve System hereby gives its consent, under the provision of Section 9 of the Federal Reserve Act, to the retirement of \$1,500,000 outstanding preferred stock of Farmers and Merchants Bank of Central California, Lodi, California.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

TITLE 12--BANKS AND BANKING

CHAPTER II--FEDERAL RESERVE SYSTEM

SUBCHAPTER A--BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. M]

PART 213--FOREIGN BRANCHES OF NATIONAL BANKS

Interest on Deposits of Officers and Employees

1. Effective March 1, 1965, § 213.4 is amended by adding a new paragraph (g) thereto to read as follows:

"(g) Pay to any officer or employee of the branch a greater rate of interest on deposits than that paid to other depositors on similar deposits with the branch."

2a. The purpose of this amendment is to permit overseas branches of national banks to pay higher rates of interest on deposits of their officers and employees than on deposits of other customers where it is usual to do so in connection with the business of banking in the places where the branches are located. This action is expected to enable such branches to compete more effectively in the hiring and retention of qualified staffs.

b. There was no notice and public participation with respect to this amendment, nor is the effective date thereof deferred, as such procedure and delay would be contrary to the public interest and serve no useful purpose. (See § 262.1(e) of the Board's Rules of Procedure (12 CFR 262.1(e)).)

-2-

Dated at Washington, D. C., this 1st day of March, 1965.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(SEAL)

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



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

Item No. 9
2/26/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 1, 1965.

Mr. Harry W. Huning, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio. 44101

Dear Mr. Huning:

In accordance with the request contained in your letter of February 23, 1965, the Board approves the appointment of Horst K. Marowsky as an assistant examiner for the Federal Reserve Bank of Cleveland. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.