

Minutes for March 30, 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

W

Gov. Robertson

Gov. Balderston

CCB

Gov. Shepardson

SSS

Gov. Mitchell

LM

Gov. Daane

DA

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, March 30, 1965. The Board met in the Board Room at 9:30 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
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. Brill, Director, Division of Research and Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Harris, Coordinator of Defense Planning
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Sammons, Adviser, Division of International Finance
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Smith, Assistant Director, Division of Examinations
Mr. Thompson, Assistant Director, Division of Examinations
Mr. Sprecher, Assistant Director, Division of Personnel Administration
Mr. Spencer, General Assistant, Office of the Secretary
Miss Hart and Messrs. Via and Sanders, Senior Attorneys, Legal Division

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Messrs. Forrestal and Robinson, Attorneys,
 Legal Division
 Mr. Ring, Technical Assistant, Division of
 Bank Operations
 Messrs. Egertson and McClintock, Supervisory
 Review Examiners, Division of Examinations
 Messrs. Goodfellow, Guth, Lyon, and Smith,
 Review Examiners, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of Cleveland, Richmond, Chicago, St. Louis, Kansas City, and Dallas on March 25, 1965, and by the Federal Reserve Bank of Boston on March 29, 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:

	<u>Item No.</u>
Letter to Bankers Trust Company, New York, New York, approving the establishment of a branch in College Point, Borough of Queens.	1
Letter to Peoples Trust Company of Bergen County, Hackensack, New Jersey, approving the establishment of a branch in Teaneck.	2
Letter to The Cleveland Trust Company, Cleveland, Ohio, approving the establishment of a branch in Strongsville.	3
Letter to Chase International Investment Corporation, New York, New York, granting permission to purchase shares of (1) a nonregistered investment company to be incorporated under the laws of Spain and (2) Peruano-Suiza de Fomento e Inversiones Sociedad Anonima, Lima, Peru.	4

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Item No.

- Letter to the Federal Reserve Bank of Kansas City approving the appointment of the following as Federal Reserve Agent's Representatives: Jay C. Waldroup and Arpy B. Bowlin at the Oklahoma City Branch, Richard C. Krieger at the Denver Branch, and Elmer F. Hennes at the Omaha Branch. 5
- Telegram to the Federal Reserve Bank of New York approving renewal of a loan on gold to the Central Bank of the Philippines. 6
- Letter to the Federal Reserve Bank of Dallas regarding certain violations of the Bank Holding Company Act by Brazos-Tenth Street Company, Austin, Texas. (The letter, as transmitted, reflects certain editorial changes in the distributed draft, as agreed upon at the meeting.) 7

With respect to Item No. 4, the wording of the distributed draft letter was changed to indicate clearly that the Board was granting consent to the proposed investments by Chase International Investment Corporation with the understanding that its foreign loans and investments were separate and apart from the foreign loans and investments of its parent bank for purposes of establishing a base under the guidelines of the voluntary foreign credit restraint effort, this being an option afforded by the guidelines.

Messrs. Goodman, Sammons, Sprecher, Forrestal, and Goodfellow, and Miss Hart then withdrew from the meeting.

Reports on competitive factors. After discussion, reports on the competitive factors involved in the following proposed mergers or similar transactions were approved unanimously for transmittal in a form in which the conclusions were stated as follows:

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(Reports to the Federal Deposit Insurance Corporation)

Acquisition of assets and assumption of liabilities
of Irvington State Bank, Irvington, New Jersey, by
The Howard Savings Institution, Newark, New Jersey

The proposed acquisition of assets and assumption of liabilities of Irvington State Bank by Howard Savings Institution, Newark, would eliminate present and potential competition between them, and would increase the resources held by the largest banking institution in the relevant area. However, there would remain, readily accessible to residents of Essex County, a wide variety of alternative sources for commercial and savings bank services. The diminution of competition, however, would not be significant.

Merger of The First National Bank in Owenton, Owenton, Kentucky, and Gratz Deposit Bank, Gratz, Kentucky, with
Farmers Bank, Owenton, Ky., Inc., Owenton, Kentucky

Competition and potential competition between Farmers Bank, Owenton, Ky., Inc., The First National Bank in Owenton, and Gratz Deposit Bank would be eliminated. However, in view of the small size of the banks, nature of the service area, and existence of an alternative source of banking services of approximately the same size, the overall effect of the proposed transaction on competition is not considered to be adverse.

(Reports to the Comptroller of the Currency)

Merger of Central National Bank of Washingtonville,
Washingtonville, New York, into County National Bank,
Middletown, New York

The proposed merger of County National Bank, Middletown, and Central National Bank of Washingtonville would appear to eliminate little existing competition. While the proposal would result in an increase in the concentration of banking resources in Orange County, there would remain a wide variety of alternative sources for banking services, and the overall effect of the proposed transaction on competition would not be significantly adverse.

Purchase of assets and assumption of liabilities of
Forty Fort State Bank, Forty Fort, Pennsylvania, by
Miners National Bank of Wilkes-Barre, Wilkes-Barre,
Pennsylvania

Consummation of the proposed purchase of Forty Fort State Bank
by Miners National Bank of Wilkes-Barre would eliminate the significant

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amount of competition presently existing between the two institutions and further the concentration of banking resources in the area's largest bank. The overall effect of the proposed transaction on competition would be adverse.

Merger of The Farmers Bank, Sunbury, Ohio, into The
First National Bank of Delaware, Delaware, Ohio

While it appears that no significant competition presently exists between The Farmers Bank, Sunbury, and The First National Bank of Delaware, consummation of the merger would eliminate all potential for competition between them.

As a subsidiary of BancOhio Corporation, a registered bank holding company, The First National Bank of Delaware would, by this merger, augment the existing preponderant share of deposits of the holding company in Delaware County. In this connection, it is also noted that Delaware County is contiguous to, and economically related to, Franklin County and Columbus, Ohio, one of Ohio's major cities. BancOhio Corporation holds about 50 per cent of the deposits in Franklin County. This proposed merger would expand slightly the deposit aggregate of the holding company in one of Ohio's business and population concentrations (Columbus, Franklin County, and peripheral area), an area in which the holding company is presently a potentially dominant force. On balance, the effect of the transaction would be adverse.

Mr. Egertson then withdrew from the meeting.

C.I.T. Financial Corporation (Item No. 8). There had been distributed a memorandum from the Division of Examinations dated March 24, 1965, submitting a draft of letter to Counsel for C.I.T. Financial Corporation, New York, New York, granting a determination exempting the corporation from all holding company affiliate requirements except for the purposes of section 23A of the Federal Reserve Act.

C.I.T. Financial Corporation directly, and through its subsidiaries, was engaged principally in the instalment finance and insurance businesses and other related operations. C.I.T. did not presently own

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any bank stock, although four of its wholly-owned insurance subsidiaries held less than one per cent of the outstanding shares in each of 15 banks and 2 registered bank holding companies. It proposed to acquire the majority of outstanding shares of The Meadow Brook National Bank, Jamaica, New York, and would thereby become a holding company affiliate of that bank.

The Division's recommendation of approval was made on the basis of the Board's general policy to make favorable determinations as a normal matter in all one-bank cases, with the understanding that a determination would be denied in any extraordinary case in which such action seemed warranted.

Governor Robertson indicated that he was strongly opposed to granting the requested determination. In his opinion, Meadow Brook National clearly was desired by C.I.T. for use in carrying out its finance business. To reason that C.I.T. would not be actively engaged in managing the affairs of the bank whose stock it proposed to acquire would be fallacious thinking. If the determination was granted, C.I.T. would not be required to maintain the reserves required by statute to be maintained by a holding company affiliate, and it would not be subject to examination. He failed to see why it should not be obliged to subject itself to such statutory requirements.

In the general discussion that followed, it was recalled that in January 1964 the Board granted a section 301 determination to an

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instalment finance company with over 200 wholly-owned subsidiaries throughout the United States and Canada. Also, the Board had, on an occasion in the recent past, reviewed in some detail its general policy on one-bank cases, with the result that the policy was reaffirmed.

Mr. Hackley noted that the Legal Division had at various times expressed its reservations with respect to the policy followed by the Board in granting section 301 determinations. However, at the meeting on January 18, 1965, when consideration was given most recently to the question of section 301 determinations, the Board had decided to adhere to the policy of granting favorable determinations in one-bank cases except in extraordinary circumstances. Although C.I.T. would be acquiring a comparatively large banking institution, this was clearly a one-bank situation. Denial of the request would, of course, reflect some change in the Board's policy and general philosophy. This was another illustration of the desirability of legislation such as recommended by the Board to bring one-bank cases within the purview of the Bank Holding Company Act and eliminate the holding company affiliate provisions of the law.

Further discussion indicated that the other members of the Board were sympathetic with the problem referred to by Governor Robertson. However, they were inclined to feel that the Board should adhere to its Policy relating to one-bank cases, on the ground that the existing law did not provide for effective action in this area, and that the appropriate approach was through remedial legislation.

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Accordingly, the letter to C.I.T. Financial Corporation was approved, Governor Robertson dissenting. A copy of the letter is attached as Item No. 8.

Report on S. 1308 (Item No. 9). A distributed memorandum from the Legal Division dated March 22, 1965, discussed a request of March 2, 1965, from the Senate Banking and Currency Committee for the Board's views on S. 1308, a bill that would authorize revised procedures for the destruction of Federal Reserve notes that were unfit for further circulation.

The bill, introduced at the request of the Treasury Department, would delete a requirement of the Federal Reserve Act that unfit notes be returned to the Comptroller of the Currency for destruction. It would authorize the Secretary of the Treasury to prescribe the procedures and locations for destruction of such notes, and it would authorize the Board to allocate credit with respect to notes so destroyed among the Reserve Banks on the basis of a formula, in lieu of an actual sort and count of the notes. As originally drafted, the bill would have contained additional provisions that the Legal Division deemed desirable, but the need for a revision of the destruction procedures for Federal Reserve notes was critical. Accordingly, a draft of letter to the Senate Committee urging favorable action on the bill was attached to the memorandum.

In a discussion of the proposal, there was agreement with a suggestion by Governor Daane that the general tenor of the draft letter

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be revised to indicate that while the procedures for destroying Federal Reserve notes had always been costly, the need for their revision did not become critical until after the issuance of \$1 Federal Reserve notes. The effect of the change of wording was to avoid the impression, which it was felt the draft might tend to convey, that an attempt was being made to force changes in the destruction procedures by waiting until a large volume of unfit \$1 notes had accumulated.

The letter was then approved unanimously for transmittal to Chairman Robertson in the form attached as Item No. 9.

Reserves against notes of other Reserve Banks. There had been distributed a memorandum from the Legal Division dated March 22, 1965, discussing legal aspects of certain suggestions contained in a distributed memorandum from Mr. Farrell of January 4, 1965, that related to possible means of eliminating the requirement for maintaining gold reserves against Federal Reserve notes held by Federal Reserve Banks other than the Bank of original issue. At the meeting on January 6, 1965, the Legal Division had been requested to study these possibilities.

A principal question raised in the March 22 memorandum related to the interpretation of the phrase "in actual circulation" as used in the requirement of section 16 of the Federal Reserve Act that "Every Federal Reserve bank shall maintain reserves in gold certificates of not less than 25 per centum against its Federal Reserve notes in actual circulation," the question being whether this phrase should be construed

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as eliminating the need for gold reserves against notes held by Federal Reserve Banks when such notes were not in use as currency. A related consideration involved the manner in which the Reserve Banks computed the amount of notes against which gold reserves must be maintained. Even if the Board agreed with the conclusion cited in the Legal Division's memorandum that "notes in actual circulation" might appropriately be regarded as referring only to those notes in the hands of the public, it might consider that the instructions to the Reserve Banks for computing reserves should continue to include provision for gold reserves against notes held by Reserve Banks other than the issuing Bank. Exclusion of such notes from gold reserve requirements would compel each Bank to ascertain daily the amount of its holdings of notes of each other Bank, individually. This would require, in the opinion of the Division, a daily 100 per cent sort of such notes. The Division believed, for reasons discussed in its memorandum, that a formula such as had been used traditionally by the Reserve Banks to compute the amount of notes against which reserves must be maintained was not authorized by law and was inconsistent with its intent. (According to this practice, if a Reserve Bank had on hand a mass of notes of various Reserve Banks, it made an estimate of the amount of its own notes included in that mass, and this estimated amount was deducted from its total of notes outstanding prior to computing its required gold reserve.)

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In discussion, members of the legal staff observed that prior to 1954 each Reserve Bank was required to sort out the notes of other Reserve Banks and return them to the Bank of issue. In July 1954 the Federal Reserve Act was amended to permit recirculation of notes of other Reserve Banks. Subsequently, the Bank of issue had not been making any sort between its own notes and fit notes of other Reserve Banks. Of course, the accumulation of unfit notes by the individual Banks, prior to destruction, had been substantial. The issuance of \$1 Federal Reserve notes had resulted in a greater accumulation of unfit notes, and that situation had prompted proposed legislation, discussed by the Board earlier during this meeting, to permit use of a formula for redemption credit when a mass of unsorted notes was destroyed.

Mr. Farrell pointed out that if the Board determined that "notes in actual circulation" referred only to those notes in the hands of the public and excluded notes held by Reserve Banks from gold reserve requirements, it would be physically impossible for each Bank to ascertain daily the exact amount of its holdings of notes of each other Bank. He cited examples to illustrate the magnitude of the problem. In the circumstances, the Reserve Banks had been using a formula in computing the amount of their own notes on hand. The Legal Division, recognizing the practical problem, had suggested that the practice of deducting from a Reserve Bank's note liabilities, for purpose of computing the gold reserve requirement, the estimated amount of the Bank's holdings of its own notes be discontinued.

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The suggestions of the Division of Bank Operations had been directed toward economizing on the required gold reserves by eliminating the requirement for reserves against notes held within the Federal Reserve Banks. If the Legal Division's suggestion was followed, the gold reserve requirements would be increased rather than reduced.

It was pointed out that the Board was supporting legislation to revise the procedures for destruction of unfit notes. Such legislation would authorize use of a formula to determine the credit that would be given each Reserve Bank when an unsorted mass of unfit notes was destroyed. Conceivably, some question might be raised at hearings on the proposed legislation as to why it was necessary to authorize by legislation the use of a formula in connection with the destruction of unfit notes when without legislation the Federal Reserve permitted use of a formula by the Reserve Banks to determine gold reserve requirements. The Banks had, of course, used such a formula for many years without question being raised. This could be construed as implying acceptance of its use. To request that the proposed legislation be revised at this stage to include authority to use a formula for fit notes seemed injudicious.

In further discussion, it was brought out that a single note issue would diminish the complications of computing required gold reserve requirements. However, that question was beyond the purview of the immediate discussion.

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Comments by members of the Board indicated general agreement with the conclusion of the Legal Division that the phrase "notes in actual circulation" might well be construed as referring only to those notes held outside the Reserve Banks. However, it was also felt that from a practical standpoint the Reserve Banks were warranted in continuing to follow the estimating method that had been used for computing the amount of notes against which reserves must be maintained. It was also generally agreed that it would be inappropriate to suggest a change in the proposed legislation now before Congress so as to include authorization for use of a formula with respect to fit notes.

Mr. Sanders brought out that the instructions to the Reserve Banks on computation of required reserves were in need of revision in view of the recent legislation eliminating the requirement for maintenance of a 25 per cent gold cover against deposits. These instructions would be affected by the Board's position on "notes in actual circulation" because at present notes of a Reserve Bank held by another Reserve Bank were counted as outstanding for the purpose of the reserve computation. The related question involved the estimating procedure.

Mr. Farrell outlined changes that would be required in the estimating procedure if the instructions to the Reserve Banks were revised to define "notes in actual circulation" as excluding notes of other Reserve Banks held by a particular Bank. In brief, it appeared that each Reserve Bank not only would have to break down, by estimate, its

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holdings of its own notes and those of other Reserve Banks but also would have to allocate, by estimate, its holdings of notes of other Reserve Banks among the several Banks.

Having all of these considerations in mind, Chairman Martin inquired whether the best alternative might not be to "leave well enough alone." After further discussion, there was general concurrence with this view, despite the feeling that the phrase "notes in actual circulation" might appropriately be redefined. It was noted, among other things, that in view of the recent change in the law eliminating the gold reserve requirement against deposits, there was presently no pressure on the gold cover against Reserve Bank note liabilities.

Messrs. Daniels, Sanders, and Ring then withdrew from the meeting.

Applications of Shawmut Association. There had been distributed a memorandum from the Division of Examinations dated March 19, 1965, and supporting papers with respect to the applications of Shawmut Association, Inc., Boston, Massachusetts, for prior approval of (1) the formation of a bank holding company through the acquisition of a majority of the voting shares of 12 existing banking institutions and (2) the acquisition of 97.5 per cent of the outstanding voting shares of Congress National Bank of Boston, Boston, Massachusetts, a proposed new bank. (Congress National would be consolidated with The National Shawmut Bank of Boston, Boston, Massachusetts, under the charter of the former and title of the latter.) The Division's recommendation was favorable.

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At the Board's request, Mr. Thompson summarized the facts of the case and the reasons underlying the favorable recommendation of the Division of Examinations, his comments being based on the material that had been distributed.

The applications were then approved unanimously, with the understanding that an order and statement reflecting this decision would be prepared for the Board's consideration.

Messrs. Thompson, Guth, and Lyon then withdrew from the meeting.

Capital notes and debentures. At the Board meeting on February 26, 1965, consideration was given to a request by a State member bank in California for permission to retire its outstanding preferred stock, in place of which it intended to issue capital notes. While that request was approved, question was raised during the discussion whether approval should be regarded as constituting a policy action reversing the Board's 1952 position (as stated in its Annual Report for that year) regarding the use of capital notes and debentures by a State member bank in lieu of capital stock. The position stated in 1952 was that the Board did not look with favor on the increasing tendency to turn to capital notes and debentures as against equity capital as a means of augmenting the protection afforded to depositors. At the conclusion of the discussion on February 26, agreement was indicated with a suggestion that a draft letter be prepared to all Reserve Banks dealing on a general basis with the question raised by the California State member bank's request.

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A draft of such a letter had now been distributed with a memorandum from the Division of Examinations dated March 15, 1965. The letter described four occasions during recent months when the Board had considered the use of subordinated long-term capital notes or debentures by State member banks as a means of augmenting capital structure, indicating the Board's views in each instance. The letter concluded with a general statement to the effect that the Board continued to be of the view that equity capital was the most desirable type of capital for banks, even though the Board had not objected to the sale of long-term subordinated debentures or capital notes in certain of the situations therein described.

During a general discussion of the proposed letter, members of the Board expressed varying views. Governor Robertson felt that it was not advisable to describe the several cases, since to do so might only be confusing, and that the letter should merely state a Board position. Governor Daane, on the other hand, believed that a description of the cases would provide useful information as to the Board's thinking for the benefit of the Reserve Banks. Governor Mitchell also expressed the view that a letter along the lines suggested afforded about as much guidance as could realistically be given at this time. The Board had proceeded on a case-by-case basis, out of which eventually might evolve an over-all position. He was not sanguine about the chances of agreement on a basic position document at this time. Governor Robertson

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expressed the opinion, however, that the Board should not continue to deal on a piecemeal basis with questions on the use by State member banks of capital notes and debentures, thereby possibly leading to inconsistencies. He suggested asking the staff to draft a statement of general position for consideration by the Board.

Following additional discussion, it was agreed that the staff would prepare a study relating to the use of capital notes and debentures that the Board could use as a basis for further discussion of a policy position. It was understood, in this connection, that the draft letter submitted with the March 15 memorandum would not be sent to the Reserve Banks.

Emergency preparedness program. There had been distributed a memorandum dated March 26, 1965, from the Office of Defense Planning and the Division of Examinations discussing the ramifications of the omission from the national bank examination report form of a uniform questionnaire on emergency preparedness measures that was adopted by the three Federal bank supervisory agencies in 1958.

The memorandum noted that by Executive Order issued in 1956 the Board was assigned responsibility, in cooperation with the Department of the Treasury, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, for encouraging the development of emergency preparedness measures by commercial banks. The three Federal bank supervisory agencies had subsequently adopted for use in reports of bank

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examination a uniform questionnaire designed to reveal the nature and extent of the preparedness actions taken by each bank. Copies of the completed questionnaires had been forwarded each month to the Board, and the answers had been tabulated by the staff as of June 30 of each year.

In September 1964, however, the Comptroller of the Currency issued a new instruction manual and report form for national bank examiners that omitted any reference to commercial bank preparedness and the uniform questionnaire. Recent reports of examination of national banks did not contain the questionnaire, and the last copies of completed questionnaires from the Comptroller were received in the Board's offices for tabulation during the early part of November 1964. Staff efforts to have the use of the questionnaire restored had proved unsuccessful.

In the circumstances, the staff had considered the possibility of a letter from the Board to the Comptroller requesting that the questionnaire be reinstated. However, in view of the need for completed questionnaires in time for the June 30, 1965, tabulation it was felt that the better course might be to request the assistance of the Secretary of the Treasury. A proposed letter addressed to the Secretary was attached to the memorandum.

Before commenting on the matter, Mr. Harris distributed to the members of the Board copies of a revised letter that had been handed by Chairman Martin to Secretary Dillon. The letter, which covered

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essentially the same ground as the draft distributed with the memorandum, concluded with a statement to the effect that the Board desired the full cooperation of the Comptroller in support of the President's emergency assignments and national security objectives and hoped that the Secretary might be able to resolve the problem described therein.

After comments by Mr. Harris on the situation, the Board agreed that the letter seemed appropriate in view of the circumstances described. A copy of the letter has been placed in the Board's files.

Civil Rights Act of 1964. There had been distributed a memorandum from Mr. Hackley dated March 10, 1965, and various appended documents, relating to the question of the applicability of Title VI of the Civil Rights Act of 1964 to the Federal Reserve Banks.

After a review of the question by Mr. Hackley, during which he referred to differences of opinion within the Legal Division, agreement was expressed with a suggestion by Chairman Martin that the matter be held over for another meeting when time would permit exploring the problem fully.

Inventory of open market portfolio (Item No. 10). Pursuant to the understanding at the Board meeting on March 24, 1965, there had been distributed a revised draft of reply to a letter of March 10, 1965, in which Chairman Patman of the House Banking and Currency Committee indicated that he was asking the Comptroller General to conduct a complete physical inventory of the investment portfolio of the Federal

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Open Market Committee located at the Federal Reserve Bank of New York, that the investigation would be for the purpose of reporting on the status, location, and activity within the investment portfolio, and that, depending on the outcome of the inquiry, an audit of the Federal Open Market Committee might be in order.

At the conclusion of discussion, the revised draft reply was approved unanimously for transmittal to Chairman Patman subject to changes in minor respects in light of suggestions agreed upon at this meeting. A copy of the letter, in the form transmitted, is attached as Item No. 10.

Messrs. Hexter, Shay, Via, Robinson, McClintock, and Smith (Review Examiner) then withdrew from the meeting and Messrs. Kelleher, Director, Division of Administrative Services, and Kakalec, Controller, entered the room.

Study of space in Federal Reserve Building (Item No. 11).

Following comments in supplementation of information presented in his memorandum of March 26, 1965, that had been distributed to the members of the Board, Governor Shepardson recommended that the Board authorize a study by Raymond Loewy/William Snaith, Inc., New York, New York, of the possibility of rearranging the Board's staff offices with a view to increasing the efficiency and attractiveness of the quarters while at the same time creating additional office space to meet current needs.

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It was agreed that a letter should be sent to the firm accepting the proposal contained in its letter of March 23, 1965. A copy of the letter sent pursuant to this action is attached as Item No. 11.

All members of the staff then withdrew and the Board went into executive session.

Questions of procedure. The Secretary was informed later that during the executive session the Board gave consideration to a distributed memorandum dated March 11, 1965, in which Governor Mitchell referred to the drain imposed on the working time of the Board members by the reading involved in keeping abreast of domestic and international economic conditions, money and capital market developments, System operations, bank merger proposals, Congressional activities, and miscellaneous other developments. It was his thought that sooner or later the Board would be forced to take formal systematic steps to organize the various informational flows so that they could be more readily assimilated, and that immediate steps should be taken toward finding a solution.

As a start, Governor Mitchell suggested the use of staff assistance in sorting out trivia, repetitive material, and technical developments of doubtful material significance. Such a program would involve screening and delegation, and a screening service involved some possible risk of conscious or unconscious withholding of facts or analysis. But without material risk of exposure in this regard it seemed to him two things could be done that would release a substantial amount of Board members' time for more effective use.

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One possibility mentioned by Governor Mitchell was a greater delegation of administrative decisions when policy guides and precedents were clear and readily followed. The second suggested possibility was a more widespread use of digests and summaries for incoming information.

Governor Mitchell proposed study by a staff committee of the feasibility, extension, and implementation of these suggestions.

The Secretary was advised that the discussion of Governor Mitchell's memorandum during the executive session revealed a generally sympathetic attitude toward exploring the possibilities suggested for dealing with the problem to which he referred. Accordingly, Governor Shepardson was requested to meet with appropriate members of the staff for the purpose of considering ways and means of implementing the suggestions, particularly insofar as they dealt with the digesting and summarization of information that the Board members were called upon to read and study.

The meeting then adjourned.

Secretary's Notes: On March 25, 1965, Governor Shepardson approved on behalf of the Board the following items:

Letter to Professor Edwin L. Stevens, Washington, D. C., confirming arrangements for him to conduct a 24-hour course in Effective Oral Communication for members of the Board's staff as an activity of the Board's Employee Training and Development Program, a fee of \$900 to be paid upon completion of the course.

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

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Appointment

David C. Redding as Economist, Division of International Finance, with basic annual salary at the rate of \$9,240, effective the date of entrance upon duty.

Salary increases

Wesley B. Collins, Photographer (Offset), Division of Administrative Services, from \$5,616 to \$5,886 per annum, effective March 28, 1965.

Abraham Rose, Operator (Mimeograph), Division of Administrative Services, from \$4,784 to \$4,826 per annum, effective March 28, 1965.

On March 26, 1965, Governor Shepardson approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Chicago (attached Item No. 12) approving the designation of James M. Rudny as special assistant examiner.

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

Appointments

Alfreda Moore Powers as Key Punch Operator, Division of Data Processing, with basic annual salary at the rate of \$4,410, effective the date of entrance upon duty.

Susan W. Morris 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.

Salary increases, effective March 28, 1965

Mary L. Scott, Indexing and Reference Assistant, Office of the Secretary, from \$5,495 to \$5,875 per annum, with a change in title to Senior Indexing and Reference Assistant.

Petronella Maria van der Vossen, Stenographer, Office of the Secretary, from \$4,005 to \$4,480 per annum.

Helen M. Dunn, Statistical Assistant, Division of Research and Statistics, from \$5,690 to \$6,250 per annum, with a change in title to Research Assistant.

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Salary increases, effective March 28, 1965 (continued)

Patric H. Hendershott, Economist, Division of Research and Statistics, from \$8,650 to \$10,250 per annum.

Helen B. Junz, Economist, Division of International Finance, from \$13,335 to \$14,660 per annum.

M. Patricia McShane, Assistant Review Examiner, Division of Examinations, from \$7,955 to \$8,650 per annum.

On March 29, 1965, Governor Shepardson approved on behalf of the Board the following items:

Memorandum from the Division of Research and Statistics dated March 1, 1965, recommending that a new position of Editorial Assistant be established in the Economic Editing Unit of that Division.

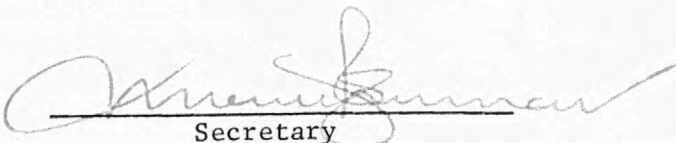
Memoranda recommending the following actions relating to the Board's staff:

Appointment

Barry Edward Huber as Summer Research Assistant, Division of Data Processing, with basic annual salary at the rate of \$5,165, effective the date of entrance upon duty.

Acceptance of resignation

Katherine G. Black, Statistical Assistant, Division of Research and Statistics, effective at the close of business March 27, 1965.


Secretary

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

Item No. 1
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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 30, 1965

Board of Directors,
Bankers Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bankers Trust Company, New York, New York, of an in-town branch at 132-10-12 14th Avenue, College Point, Borough of Queens, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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





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

Item No. 2
3/30/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 30, 1965

Board of Directors,
Peoples Trust Company of
Bergen County,
Hackensack, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Peoples Trust Company of Bergen County, Hackensack, New Jersey, of a branch (drive-in facility) at the corner of the intersection of Palisades and Barr Avenues, Teaneck, New Jersey, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

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

Item No. 3
3/30/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 30, 1965

Board of Directors,
The Cleveland Trust Company,
Cleveland, Ohio.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Cleveland Trust Company, Cleveland, Ohio, of a branch on the southwest corner of Pearl Road and Pierce Drive, City of Strongsville, Cuyahoga County, Ohio, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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



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

Item No. 4
3/30/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 30, 1965.



Chase International Investment Corporation,
1 Chase Manhattan Plaza,
New York, New York 10005.

Gentlemen:

In accordance with the request contained in your letter of January 20, 1965, transmitted through the Federal Reserve Bank of New York, and on the basis of the information furnished, the Board of Governors grants consent for Chase International Investment Corporation ("CIIC") to purchase and hold up to 50 per cent of the shares of a nonregistered investment company ("Company") to be incorporated under the laws of Spain, with its principal office in Madrid, at a cost not to exceed Pesetas 50 million (approximately US\$833,334), provided such shares are acquired within three years from the date of this letter. One of the reasons for granting this consent is the fact that CIIC had made a bona fide commitment to its Spanish associates prior to the announcement of the President's program for voluntary foreign credit restraint.

The Board's consent to the proposed purchase and holding of shares of Company by CIIC is granted subject to the following conditions:

- 1) That CIIC shall not hold any shares of Company if Company at any time fails to restrict its activities to those permissible to a corporation in which a corporation organized under Section 25(a) of the Federal Reserve Act could, with the consent of the Board of Governors, purchase and hold stock, or if Company establishes any branch or agency or takes any action or undertakes any operation in Spain or elsewhere, in any manner, which at the time would not be permissible if Company were a corporation organized under said Section 25(a);
- 2) That, when required by the Board of Governors, CIIC will cause Company (a) to permit examiners selected or auditors approved by the Board of Governors to examine Company, and (b) to furnish the Board of Governors with such reports as it may require from time to time;

Chase International
Investment Corporation

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- 3) That CIIC shall not carry on its books the shares of Company at a net amount in excess of its proportionate share of the book capital accounts of Company, after giving effect to the elimination of all known losses; and
- 4) That any share acquisitions or dispositions by Company be reported under Section 211.8(d) of Regulation K in the same manner as if Company were a corporation organized under Section 25(a) of the Federal Reserve Act.

Subject to continuing observation and review, the Board suspends, until further notice, the provisions of subparagraph (1) of the second paragraph of this letter so far as they relate to restrictions on loans granted by Company in Spain in the currency of that country.

Upon completion of the proposed acquisition, it is requested that the Board of Governors be furnished, through the Federal Reserve Bank of New York, with a translation of the Articles of Association and By-Laws of Company.

In accordance with the request contained in your letter of March 1, 1965, transmitted through the Federal Reserve Bank of New York, and on the basis of the information available, the Board of Governors also grants consent for CIIC to purchase and hold 13,368 shares, par value Peruvian Soles 1,000 each, of Peruano-Suiza de Fomento e Inversiones Sociedad Anonima-PERUINVEST, Lima, Peru, at a cost not to exceed US\$650,000, provided such stock is acquired within one year from the date of this letter.

The foregoing consents have been given with the understanding that the foreign loans and investments of CIIC, separate and apart from the foreign loans and investments of its parent bank, and including the investments now being approved, will not exceed the guidelines established under the voluntary foreign credit restraint effort now in effect, or that steps have been established to bring total claims on foreigners to a level consistent with the guidelines within a reasonable length of time.

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
3/30/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 30, 1965



Mr. Homer A. Scott,
Federal Reserve Agent,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri. 64106.

Dear Mr. Scott:

As requested in your letter of March 11, 1965, the Board of Governors approves the appointment of Mr. Jay C. Waldroup as Federal Reserve Agent's Representative at the Oklahoma City Branch to succeed Mr. William G. Evans. The Board also approves the appointment of additional Federal Reserve Agent's Representatives as follows: Richard C. Krieger at the Denver Branch, Arpy B. Bowlin at the Oklahoma City Branch, and Elmer F. Hennes at the Omaha Branch.

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

When not engaged in the performance of their duties as Federal Reserve Agent's Representatives, Messrs. Waldroup, Krieger, Bowlin, and Hennes may, with the approval of the Federal Reserve Agent and the Vice President in charge of their respective Branches, perform such work for the Branches as will not be inconsistent with their duties as Federal Reserve Agent's Representatives.

It will be appreciated if Messrs. Waldroup, Krieger, Bowlin, and Hennes are fully informed of the importance of their responsibilities as members 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.

Mr. Scott - 2

. Please have Messrs. Waldroup, Krieger, Bowlin, and Hennes execute the usual Oath of Office which should then be forwarded to the Board of Governors along with notification of the effective dates of their appointments.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

TELEGRAM
LEASED WIRE SERVICEItem No. 6
3/30/65BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

March 30, 1965

SANFORD - NEW YORK

Board approves renewal of loan on gold up to a total of \$15 million by the Federal Reserve Bank of New York to the Central Bank of the Philippines on the terms described in your wire of March 25.

(Signed) Merritt Sherman

SHERMAN

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 7
3/30/65

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 31, 1965.



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

Dear Sir:

In a letter of October 2, 1964, the Board asked your Bank to investigate apparent violations of sections 3(a) and 5(a) of the Bank Holding Company Act of 1956 ("the Act") on the part of Brazos-Tenth Street Company, Austin, Texas ("Brazos-Tenth" and "the corporation"). You replied in a letter of November 19, 1964, that Brazos-Tenth appeared to have violated section 3(a)(1) of the Act by becoming a bank holding company without prior approval of the Board when it acquired 32.5 per cent of the voting shares of Moore State Bank, Llano, Texas ("Moore State"), on August 30, 1963, when it already owned 81.7 per cent of the voting shares of Citizens State Bank, Johnson City, Texas ("Citizens State").

You also concluded that Brazos-Tenth had violated section 5(a) of the Act by failing to register as a bank holding company and section 3(a)(2) of the Act by acquiring additional shares of Moore State after becoming a bank holding company, and that Moore State and Citizens State have violated section 6(a)(4) of the Act by making loans to Brazos-Tenth after the date on which they became subsidiaries of the holding company. You concluded on the basis of your investigation that the violations listed above were unintentional, due to apparent lack of familiarity with the provisions of the Act on the part of Brazos-Tenth's officials, and you stated that Brazos-Tenth has proposed to divest itself of control of one of the two banks involved.

Accordingly, three questions are before the Board, (1) whether it finds any objection to the proposal of Brazos-Tenth regarding divestment of stock unlawfully acquired, (2) whether, in the light of all the circumstances, the matter should be reported to the Department of Justice, and (3) whether the corporation should be required to file a registration statement as a bank holding company. The aforesaid questions are to be considered in the light of the following facts.

Brazos-Tenth takes its name from the address of the building housing the Texas Broadcasting Corporation (formerly LBJ Co.). All the stock in the company is owned by Mr. Donald S. Thomas, partner in the law firm of Clark, Thomas, Harris, Denius & Winters, of Austin, Texas. In addition to the building just mentioned, the corporation owns some other real estate, as well as interests in eleven Texas banks (relatively minor interests in all but the two banks earlier mentioned) and in two nonbanking Texas corporations, one of which controls a twelfth bank.

Brazos-Tenth began purchasing bank stocks early in 1961, when it acquired a controlling interest in Citizens State. Except for Moore State, its other purchases of such stock were of rather small blocks, the largest consisting of 11.3 per cent of the stock of American State Bank in San Antonio (acquired in 1962) and the next largest of 6.0 per cent of the stock of Citizens National Bank, in Austin (acquired in 1961). None of its remaining holdings represents more than 5 per cent of the stock of any one bank. Early in 1964 it acquired 5 per cent of the stock of First of Groves Corporation, which owns a controlling interest in Groves State Bank, Groves, Texas. The second nonbanking corporation in which it owns an interest is Home Theatres, Inc., 4.1 per cent of whose stock was acquired by Brazos-Tenth early in 1963.

In addition to the building at Brazos-Tenth, the corporation's unaudited financial statement as of the close of business on August 31, 1964, lists property which seems to consist of rental housing as "Harris Boulevard" and "Interregional". The rental properties, all together, are carried (after deducting "accumulated depreciation and investment credit") at approximately \$600,000.

Under section 2(a) of the Act, a corporation does not become a bank holding company until it owns or controls 25 per cent or more of the voting stock of each of two banks. Thus, Brazos-Tenth did not become a bank holding company until August 30, 1963, when, as mentioned above, it acquired 32.5 per cent of the stock of Moore State. After that date, it acquired additional stock in Moore State (28 shares on September 27, 1963, 76 shares on February 25, 1964, and 210 shares on September 5, 1964). Some of the smaller blocks of bank stock which it owns were also acquired after it became a bank holding company. It acquired additional stock in Citizens State after August 30, 1963.

On September 23, 1963 and on April 22, 1964, subsequent to the date on which Brazos-Tenth became a bank holding company, its indebtedness to Citizens State that had been outstanding when the corporation became a bank holding company was increased by \$27,500

Mr. Thomas R. Sullivan

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and \$18,000 respectively. Further, on August 21, 1964, nearly a year after it became a bank holding company, Brazos-Tenth borrowed some \$10,500 from Moore State.

Section 3(a) of the Act provides that

"It shall be unlawful except with the prior approval of the Board (1) for any action to be taken which results in a company becoming a bank holding company under section 2(a) of this Act; (2) for any bank holding company to acquire direct or indirect ownership or control of any voting shares of any bank if, after such acquisition, such company will directly or indirectly own or control more than 5 per centum of the voting shares of such bank . . . [except that] . . . this prohibition shall not apply to . . . additional shares acquired by a bank holding company in a bank in which such bank holding company owned or controlled a majority of the voting shares prior to such acquisition."

Since Brazos-Tenth did not obtain the prior approval of the Board for any of its acquisitions, it seems clear that the August 30, 1963, acquisition of Moore State stock, as a result of which the corporation became a bank holding company, was a violation of this section, as were the subsequent acquisitions of additional stock in the same bank. On the other hand, since Brazos-Tenth already owned a majority of the stock in Citizens State before it became a bank holding company, its subsequent acquisitions of additional shares in that bank came under the exception to the prohibition of the statute and were not violations. As for its purchases of smaller interests in banks, in both cases where the blocks purchased exceeded 5 per cent of the particular bank involved, such purchases were made before the date on which the company became a bank holding company, so that no violation of law resulted.

The statute requires, in section 5(a) that

". . . within one hundred and eighty days after becoming a bank holding company, . . . each bank holding company shall register with the Board on forms prescribed by the Board . . ."

Brazos-Tenth failed to comply with the requirements of section 5(a) in that it did not register with the Board within one hundred and eighty days after August 30, 1963.

Mr. Thomas R. Sullivan

Section 4(a)(2) of the Act provides that with certain exceptions, discussed below where relevant,

". . . no bank holding company shall . . . after two years from . . . the date as of which it becomes a bank holding company . . . retain direct or indirect ownership or control of any voting shares of any company which is not a bank or a bank holding company or engage in any business other than that of banking or of managing or controlling banks or of furnishing services to or performing services for any bank of which it owns or controls 25 per centum or more of the voting shares."

Brazos-Tenth owns shares in two companies which do not meet the qualifications of section 4(a)(2). If it remained a bank holding company, it would be required to divest itself of these shares by August 30, 1965, if it were not for the fact that they are eligible for the exception provided by section 4(c)(5). That section provides that the prohibitions of section 4(a)(2) shall not apply

". . . to shares of any company which are held or acquired by a bank holding company which do not include more than 5 per centum of the outstanding voting securities of such company, and do not have a value greater than 5 per centum of the value of the total assets of the bank holding company . . ."

The holding company owns only 5 per cent of the stock in First of Groves Corporation, and 4.1 per cent of the total shares in Home Theatres (presumably these percentages are of total outstanding voting shares) and neither interest appears from financial statements submitted to the Board to amount to as much as 5 per cent of the value of the total assets of the holding company. On the other hand, Brazos-Tenth owns three rental properties, the building in which the Texas Broadcasting Corporation is housed, and two properties rented as "houses". The Board finds that the corporation's ownership and use of these properties constitute an engagement by the corporation in the business of owning and operating rental properties, an activity not permitted to a bank holding company under the Act. Since no applicable exception permits the holding company to engage in this business, Brazos-Tenth would be required to divest itself of these properties before August 30, 1965, if it remained a bank holding company.

Section 6(a)(4) forbids a bank, after the date of enactment of the Act

". . . to make any loan, discount or extension of credit to a bank holding company of which it is a subsidiary or to any other subsidiary of such bank holding company. "

Mr. Thomas R. Sullivan

Accordingly, the loans made by Moore State and Citizens State to Brazos-Tenth, after the date on which it became a bank holding company and they became its subsidiaries, were violations of that section.

When the violations described above were called to the attention of officials of Brazos-Tenth, they proposed in a letter of November 13, 1964, after discussions with representatives of your Bank, that the corporation sell, in the alternative, "the requisite number of shares of Citizens State Bank stock or Moore State Bank stock." The corporation states that the stock would be sold to Mr. Thomas, as an individual, without any tie to the corporation or its several interests.

The purposes of the Act, broadly speaking, are to assure regulation of the expansion of bank holding companies in a manner compatible with the statutory standards of sound banking, community needs and convenience, and the preservation of competition, and to prevent retention by a bank holding company of both banking and prohibited nonbanking interests. Since Brazos-Tenth's proposal, if carried out, would dissolve the bank holding company, the aforesated purposes would be accomplished. Accordingly, the Board would enter no objection to the corporation divesting itself of sufficient shares in either Citizens State or Moore State so that it would no longer own or control, directly or indirectly, 25 per cent or more of the voting shares of more than one bank.

Assuming consummation of the proposed divestment, the question remains as to whether any useful purpose would be served in reporting the violations described above to the Department of Justice. The Board has noted your Bank's conclusion that the violations herein discussed were inadvertent, due to an apparent lack of awareness of the relevant provisions of the Act. This explanation appears to be supported by the fact that the officers of Brazos-Tenth immediately acknowledged the stock acquisitions and the loan, and offered at once to correct the resulting violations by some suitable method.

The Bank Holding Company Act, in section 8, provides for penalties only in cases where companies or individuals are shown to have participated willfully in a violation of the Act. Since no evidence has been found which would support a finding of willful violation by Brazos-Tenth or its officers, the Board believes that no useful purpose would be served in reporting the violations to the Department of Justice. This position is in accord with that reached by the Board in a number of other similar situations in the past, including those noted in letters to your Bank of June 2, 1958, May 31, 1962, and April 17, 1964.

Mr. Thomas R. Sullivan

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In the situations described in these letters as well as in parallel instances where corporations had, through inadvertent actions, become "bank holding companies" within the meaning of the Act, and also, promptly and in good faith, divested themselves of sufficient banking interests so that they ceased to fall within its terms, the Board has concluded that no useful purpose, either supervisory or other, would be served by requiring the filing of an essentially superfluous registration statement. Accordingly, it sees no need for the filing of such a statement by Brazos-Tenth.

One further point should be mentioned for the information of the corporation. The corporation states that the proposed divestment would be accomplished by selling the bank stock in question to Mr. Thomas, president of the corporation, as an individual, to the end that the banking and nonbanking interests would remain under common control. The statute, of course, does not forbid common control of banking and nonbanking interests by an individual, and such control does in fact exist in many cases. However, should Brazos-Tenth's divestment proposal involve another corporation in the chain of ownership which would also be a "bank holding company" within the meaning of the Act, or if it were shown that following "divestment", 25 per cent or more of the voting shares of each of two banks were held in trust for the benefit of the shareholders (whether legal or beneficial) of Brazos-Tenth, the violations which are the subject of this letter would not have ceased, and all applicable provisions of the Act would continue to obtain. The officials of the corporation will no doubt wish to take these points into consideration in framing their course of action.

It will be appreciated if you will transmit to Brazos-Tenth the substance of the Board's views as herein set forth. Brazos-Tenth should be directed to advise your Bank of the date and fact of stock divestment as a result of which it will cease to be a bank holding company.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 8
3/30/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 30, 1965

Cravath, Swaine & Moore,
1 Chase Manhattan Plaza,
New York, New York. 10005

Dear Sirs:

This refers to the request contained in your letter of March 3, 1965, submitted through the Federal Reserve Bank of New York, for a determination by the Board of Governors of the Federal Reserve System as to the future status of C.I.T. Financial Corporation as a holding company affiliate.

From the information presented, the Board understands that C.I.T. Financial Corporation directly, and through its subsidiaries, is engaged principally in the instalment finance and insurance businesses and other related operations; that it owns indirectly through four of its wholly owned insurance subsidiaries less than one per cent of the shares outstanding in each of 15 banks and 2 bank holding companies; that it proposes to acquire 3,000,000 or more of the 3,645,134 shares outstanding of The Meadow Brook National Bank, Jamaica, New York; and that it will thereby become a holding company affiliate of that bank.

In view of these facts, the Board has determined that C.I.T. Financial Corporation will not 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 within the meaning of section 2(c) of the Banking Act of 1933 (12 U.S.C. 221a); and, accordingly, it will not be deemed to be a holding company affiliate except for the purposes of Section 23A of the Federal Reserve Act, and will not need a voting permit from the Board of Governors in order to vote the bank stock which it will own.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Cravath, Swaine & Moore

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If, however, the facts should at any time indicate that C.I.T. Financial 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 the 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

Item No. 9
3/30/65

OFFICE OF THE CHAIRMAN

March 31, 1965.

The Honorable A. Willis Robertson, Chairman,
Committee on Banking and Currency,
United States Senate,
Washington, D. C. 20510

Dear Mr. Chairman:

This is in response to your request for the Board's views on S. 1308, a bill to authorize revised procedures for the destruction of Federal Reserve Notes that are unfit for further circulation.

Under the present procedures, unfit Notes are required to be sorted according to the Bank of original issue and to be returned to the Comptroller of the Currency for destruction. While these procedures have always been costly, the need for their revision did not become critical until shortly after the issuance of \$1 Federal Reserve Notes was authorized by P.L. 88-36 of June 4, 1963.

If S. 1308 were enacted, it is contemplated that the Secretary of the Treasury would prescribe procedures and controls with respect to the destruction of Federal Reserve Notes along the same lines as those he has prescribed for the destruction at Federal Reserve Banks of other unfit United States currency, including one dollar silver certificates. Such regional destruction of Federal Reserve Notes would effect substantial economies over present procedures.

The Board urges that this bill be acted upon favorably, by your Committee and the Congress, as promptly as possible.

Sincerely yours,

A handwritten signature in cursive script, reading "Wm. McC. Martin, Jr." with a large flourish at the end.

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 10
3/30/65

OFFICE OF THE CHAIRMAN

March 31, 1965.

The Honorable Wright Patman,
Chairman, Committee on Banking and Currency,
House of Representatives,
Washington, D. C. 20515.

Dear Mr. Chairman:

This is in reply to your letter of March 10, 1965, in which you stated that you are "asking the Comptroller General to conduct a complete physical inventory of the investment portfolio of the Federal Open Market Committee located at the Federal Reserve Bank of New York"; that "this investigation will be for the purpose of reporting on the status, location, and activity within the investment portfolio"; and that, "depending on the outcome of this inquiry, an audit of the Federal Open Market Committee may be in order." You requested that we inform you of "the earliest available time when staff from the Comptroller General can undertake this inquiry."

In view of the decision by the Congress that the Federal Reserve System should not be subject to audit by the Comptroller General, the Board of Governors would not be justified in making the arrangements you propose. It may be appropriate to recall the letter addressed to you on April 29, 1952, by the Acting Comptroller General in which he stated that it was his "opinion that the General Accounting Office would be unable to undertake an audit of the activities of the Board and the Federal Reserve Banks without specific authority of the Congress." Over a period of many years, a number of bills have been introduced in Congress to provide expressly for GAO audit of the Board, the Federal Open Market Committee, and the Federal Reserve Banks. The Congress did not see fit to act on such bills, possibly because of considerations such as will be mentioned in this letter.

From testimony on the subject at hearings before committees of the Congress, the Board's views on proposals for audit of the Federal Reserve Banks by the Comptroller General are well known to you. They may be briefly stated: (1) The Congress has designated the Board of Governors to perform these functions

The Honorable Wright Patman

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(Section 21, Federal Reserve Act). (2) It would be a waste of auditing resources because it would duplicate work performed by the Board. (3) Most importantly, such an audit could broaden out into a general review by the Comptroller General of monetary policy formulation and implementation--a review appropriate only with a formal Congressional mandate. Given its assignment, the System should be in a position to exercise its judgment as to the policies best suited to attain the objectives for which it is responsible in strengthening the nation's economy, so far as these are attainable through monetary policies.

Apart from the broad question, the Board believes there is no sound reason for any additional inventory or other audit activities such as suggested in your letter. A physical inventory of the securities would serve no purpose in view of the physical and operating controls that now govern their custody, and the frequent audits and examinations of the System Open Market Account. The securities are lodged in steel chests, within a compartment enclosed by steel partitions, within a maximum security vault. The door to the vault is controlled by electrical time devices; it bears two separate combination locks; each combination is known only to designated members of a control group, and a member from each of the two separate control groups each must turn his combination before the door may be opened. During the day an armed guard is stationed at the door of the vault, and access is controlled by a day gate which is kept locked at all times, the key being in the custody of a member of the vault division. No one is admitted beyond the day gate until it is established that he has business that necessitates his entry into the vault, and in each instance the entrant must sign his name on a register. Similarly, the doors to each compartment are kept locked, being controlled by the custodians assigned to the compartment. The chests in which the securities comprising the System's investment portfolio are stored are locked except when a deposit or withdrawal is being made; they may be opened only when two custodians, each representing a separate control group, release their respective locks. All securities received or delivered are separately verified by each of the two custodians, acting on properly authorized instructions.

The program of the internal auditing department of the Reserve Bank requires at least two verifications annually of the securities held for the System Open Market Account by detailed count and verification of each bill, certificate, note, and bond in the portfolio, and agreement of the holdings so verified with

the accounting controls. The internal auditing department's precedures also provide for an appropriate check of each purchase and sale transaction executed for the account, a verification of the accounting of interest, discount and premium, and other procedures necessary to assure that the operations of the account are conducted in accordance with the instructions of the Federal Open Market Committee.

In addition to the internal audits the Board of Governors of the Federal Reserve System, as the Government body designated for the purpose (F. R. Act, Sec. 21), each year causes its examiners to make an independent examination of the Federal Reserve Bank of New York, including a comprehensive audit of the Federal Open Market Account. The latter audit by the Board's staff also includes a detailed piece count of the securities in the portfolio, and other appropriate procedures to assure that the Account is being operated properly and that the results are properly reflected in the financial statements of the Bank. The latest such examination was made as of May 22, 1964, and a similar examination will be conducted within the current year at a time unknown to the Bank. The most recent verification of the securities holdings by the Bank's internal auditing staff was on February 5, 1965.

As the record amply testifies, information to assist your Committee can be made available without a special audit such as you suggest. At your request the Board has provided a great mass of information ranging widely over the operations of the Reserve Banks and the Federal Open Market Committee, including various materials generated for internal use in the System. As examples, you will recall that you have had for study the reports of examination of the twelve Federal Reserve Banks for the years 1949 through 1962, as well as the examiners' reports on their audits of the System Open Market Account. In pursuing your intensive inquiry in 1963, you will recall that members of your staff were afforded an opportunity to review the examiners' work papers and other confidential examination material; that additional details on certain accounts were obtained at your request from the Reserve Banks and that arrangements were subsequently made for members of your staff to visit several Reserve Banks and examine the additional documents they expressed an interest in seeing; also that consultants to your Committee were afforded an opportunity to visit Reserve Banks for the purpose of obtaining information and discussing with the Banks' officials various aspects of System affairs in which your Committee was interested.

The Honorable Wright Patman

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Specifically with regard to the functioning of the Federal Open Market Committee, you will recall that in addition to the reports of audit of the Account in November 1957 you were furnished photostatic copies of pages (some 1,700 in total) showing details of purchase and sale transactions for the System Open Market Account and transactions under repurchase agreements covering the period March 4, 1951, to the end of 1956; also, a complete file of the weekly reports of open market operations for the year 1956 prepared for internal purposes. Information such as the above is in addition to the data regularly published by the Board in compliance with statutory requirements. Just to review, the "consolidated statement of condition of the twelve Federal Reserve Banks" is published weekly in accordance with Section 11 of the Federal Reserve Act and includes summary totals by class of the securities held in the System's investment portfolio and an analysis of maturity distribution. Such data are as of the day immediately preceding publication date. Pursuant to the requirement of Section 10 of the Federal Reserve Act, the Board's annual report contains a complete record of policy actions of the Federal Open Market Committee. The annual report also includes a tabulation of the System's holdings of Government securities at the year end, by type of issue, maturity and amount (see pp. 226-28 of the report for 1965).

To summarize, there has been made available to you in response to your past requests a mass of detailed information on the operations of the Federal Open Market Committee, and there continues to be available through the Federal Reserve's regular reporting procedures current information on the System's investment portfolio. If any member of your Committee or any duly designated member of its staff wishes to visit the Federal Reserve Bank of New York to see at first hand how the operations of the System Open Market Account are conducted and recorded, or if he wishes to observe the provisions in effect for the safe custody of the investment portfolio, the Board will be glad to make the necessary arrangements. It will be recalled that two members of your staff did in fact make such a visit to New York in October 1957.

I am sure that we can arrange to provide you with any information your Committee needs in the performance of its functions without getting into the question of a GAO audit. In an analogous situation in 1963 the information you wanted was made available to staff of your Committee; perhaps similar arrangements would be suitable in this case. To assist the Board in making arrangements, it would be helpful to know, at least in outline, what information you desire that has not previously been supplied.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

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

Item No. 11
3/30/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 2, 1965.

Raymond Loewy/William Snaith, Inc.,
425 Park Avenue,
New York 22, New York.

Gentlemen:

This will acknowledge your letter of March 23, 1965, to Governor Shepardson submitting a proposal for analyzing the Federal Reserve Building, the aim being: (1) to determine whether a reasonable amount and quality of additional office space can be created through modern space planning techniques; and (2) if so, to illustrate the possible character of this space and to prepare cost estimates for alterations. The analysis would include all office space (except the executive wing), but not food preparation and service areas.

The first step would be to determine if a reasonable amount and quality of space can be created. Your presentation would be in the form of plans and sketches, the fee would be \$15,000, and the work would require one month.

If the first step showed that a reasonable amount of space could be created and if the Board of Governors wished to proceed, as your next step you would prepare preliminary designs to show the appearance of the basic system(s) of office layout. This work would be in the form of sketches, plans, and renderings, and you would also prepare estimates of the costs of altering the interiors. This step would require three months, and the fee would be \$12,500.

If, after the foregoing steps had been completed, the Board of Governors should decide to proceed with alterations and wished your firm to prepare final plans, designs, and specifications for these alterations, it is understood that you would

Raymond Loewy/William Snaith, Inc. -2-

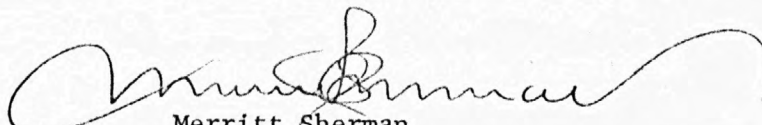
submit a proposal for this work and that in such proposal you would be willing to credit one-half of the fees previously mentioned against your total fee for the later work.

As to expenses, you would propose to be reimbursed for all necessary and authorized out-of-pocket expenses for purchases of photography, blueprints, photostats, typography, models, laboratory tests, etc. at cost plus a 10 per cent handling charge. Travel, when required and approved, would be charged at actual cost plus subsistence at \$30 per day when an overnight stay is required; otherwise, at \$15 per day.

The Board accepts your proposal as to the first two steps and authorizes your firm to proceed with the work as described in your letter and at the fees specified. Your proposals with regard to reimbursement for travel and out-of-pocket expenses are satisfactory to the Board.

It would be appreciated if you will get in touch with Governor Shepardson when you are prepared to begin your work in order that the necessary arrangements may be made.

Very truly yours,



Merritt Sherman,
Secretary.

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

Item No. 12
3/30/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 26, 1965



Mr. Leland M. Ross, Vice President,
Federal Reserve Bank of Chicago,
Chicago, Illinois. 60690

Dear Mr. Ross:

In accordance with the request contained in your letter of March 16, 1965, the Board approves the designation of James M. Rudny as a special assistant examiner for the Federal Reserve Bank of Chicago.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.