

Minutes for April 15, 1965.

To: Members of the Board


From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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

Chm. Martin

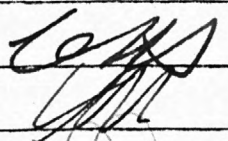


Gov. Robertson




Gov. Balderston

Gov. Shepardson



Gov. Mitchell



Gov. Daane

Minutes of the Board of Governors of the Federal Reserve System on Thursday, April 15, 1965. The Board met in the Board Room at 10:30 a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Balderston, Vice Chairman  
Mr. Shepardson  
Mr. Mitchell  
Mr. Daane 1/

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Young, Adviser to the Board and Director,  
Division of International Finance  
Mr. Noyes, Adviser to the Board  
Mr. Cardon, Legislative Counsel  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Farrell, Director, Division of Bank  
Operations  
Mr. Solomon, Director, Division of Examinations  
Mr. Kelleher, Director, Division of Administrative  
Services  
Mr. Hexter, Assistant General Counsel  
Mr. O'Connell, Assistant General Counsel  
Mr. Shay, Assistant General Counsel  
Mr. Hooff, Assistant General Counsel  
Mr. Holland, Associate Director, Division of  
Research and Statistics  
Mr. Kiley, Assistant Director, Division of Bank  
Operations  
Mr. Leavitt, Assistant Director, Division of  
Examinations  
Mr. Smith, Assistant Director, Division of  
Examinations  
Mrs. Semia, Technical Assistant, Office of the  
Secretary  
Miss Hart and Messrs. Via and Young, Senior  
Attorneys, Legal Division  
Messrs. Robinson and Sanders, Attorneys, Legal  
Division  
Mr. Fisher, Senior Economist, Division of Research  
and Statistics  
Messrs. Egertson and McClintock, Supervisory Review  
Examiners, Division of Examinations

1/ Entered meeting at point indicated in minutes.

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Report on competitive factors (Woodbridge-Springfield, Virginia).

A report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of Guardian National Bank of Fairfax County, Springfield, Virginia, into The Bank of Prince William, Woodbridge, Virginia, was approved unanimously for transmittal to the Corporation. The conclusion read as follows:

The proposed merger of The Bank of Prince William, Woodbridge, Virginia, a subsidiary of Virginia Commonwealth Corporation, Richmond, Virginia, a registered bank holding company, and Guardian National Bank of Fairfax County, Springfield, Virginia, would not have adverse effects on competition.

In this connection, Mr. Solomon reported to the Board as a matter of information on difficulties experienced in the operations of Guardian National, particularly as they had been revealed through the process of application for discount window accommodation.

Application of First Wisconsin Bankshares (Item No. 1). First Wisconsin Bankshares Corporation, Milwaukee, Wisconsin, had applied for a determination that proposed additions to the activities of its nonbanking subsidiary, First Wisconsin Company, were of a kind described in section 4(c)(6) of the Bank Holding Company Act so as to make inapplicable the prohibitions of section 4(a). First Wisconsin Company, which already provided credit life insurance on instalment loans (an activity previously found by the Board to qualify under section 4(c)(6)), proposed also to provide mortgage redemption insurance and monthly disability income insurance on mortgage loans made by First Wisconsin Bankshares' banking subsidiaries. At its meeting on September 30, 1964,

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the Board ordered a hearing on the application, as required by law. David London was designated as Hearing Examiner, and the hearing was held on November 6, 1964.

There had now been distributed a memorandum dated April 9, 1965, from the Legal Division attaching the report and recommended decision of the Hearing Examiner. The Division agreed with the Hearing Examiner's conclusion that the activities proposed to be added met the test of section 4(c)(6), and recommended that the Board issue an order adopting the findings of fact, conclusions of law, and recommendation of the Hearing Examiner. A draft of order granting the requested determination was attached to the memorandum.

After discussion, the issuance of the order was authorized; a copy is attached as Item No. 1.

Application of First Oklahoma Bancorporation (Item No. 2).

First Oklahoma Bancorporation, Inc., Oklahoma City, Oklahoma, had applied for a determination that the activities planned to be undertaken by its proposed subsidiary, First Oklahoma Baninsurance, Inc., were of the kind described in section 4(c)(6) of the Bank Holding Company Act so as to make inapplicable the prohibitions of section 4(a). First Oklahoma Baninsurance proposed to write, and carry as insurer, credit life, health, and accident insurance on instalment loans (up to \$5,000 and for a term not exceeding 36 months) made by the subsidiary banks of First Oklahoma Bancorporation. At its meeting on September 30, 1964, the Board ordered



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a hearing on the application, as required by law. David London was designated as Hearing Examiner, and the hearing was held on October 27, 1964.

There had now been distributed a memorandum dated April 9, 1965, from the Legal Division, accompanied by a copy of the report and recommended decision of the Hearing Examiner. The memorandum expressed concurrence with the Hearing Examiner's conclusion that the activities planned to be undertaken met the test of section 4(c)(6), and recommended that the Board issue an order granting the requested determination. A draft of such an order was attached to the memorandum.

The Board authorized the issuance of the order, a copy of which is attached as Item No. 2.

Messrs. Via, Egertson, and McClintock then withdrew from the meeting. Governor Daane joined the meeting at this point.

Housing legislation (Item No. 3). There had been distributed a memorandum dated April 5, 1965, from the Legal Division regarding a request from Chairman Robertson of the Senate Committee on Banking and Currency for a report on S. 1354, the Housing and Urban Development Act of 1965. The memorandum described the major provisions of the bill and reviewed the general position the Board had taken in the past few years on Federal housing legislation. In particular, it was pointed out that in January 1964, in a report to the Bureau of the Budget on a draft bill that was later enacted as the Housing Act of 1964, the Board

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referred with approval to the guiding principles for Federal credit agencies contained in the November 1962 Report of the Committee on Federal Credit Programs and expressed the view that a number of major features of the draft bill would run counter to those principles.

Attached to the memorandum was a draft of report on S. 1354 that, without arguing the merits of the proposed legislation, would discuss financial provisions of the bill in the light of the guidelines in the Report of the Committee on Federal Credit Programs. The draft would not specifically comment on the bill's provisions for five new programs of grants to public agencies or the program for rehabilitation grants to private homeowners, these programs being of a type for which no clear-cut guidelines were provided in the Committee Report.

During summary comments Mr. Young (Legal) observed that the draft reply to Chairman Robertson would take a somewhat milder approach than the January 1964 report to the Budget Bureau on the then proposed housing legislation. In the ensuing discussion certain provisions of S. 1354 were mentioned from the standpoint of exploring whether the tone of the report should be more firm, especially as it related to financing arrangements. However, comment was made that a tone of strong opposition could lead to a request for testimony on the bill, and it was the consensus that this probably would serve no very worth-while purpose. It was felt that the proposed letter found greatest strength in its references to the Report of the Committee on Federal Credit Programs.

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After further discussion the draft of letter to Chairman Robertson was approved unanimously, subject to certain editorial changes. A copy of the letter in the form transmitted is attached as Item No. 3.

Messrs. Young (Legal) and Fisher then withdrew from the meeting.

Payment of "excessive" interest. There had been distributed a memorandum dated April 14, 1965, from the Legal Division regarding the reply to be made to a request from the Bureau of the Budget for the Board's views on a proposal by the Federal Deposit Insurance Corporation for legislation based on the theory that, when a person receives compensation with respect to money placed in an insured bank at a rate in excess of the maximum permissible rate under the Board's Regulation Q, Payment of Interest on Deposits, or the corresponding regulation of the Federal Deposit Insurance Corporation, the transaction involves a borrowing rather than a deposit. The legislative proposal was related to the circumstances surrounding recent bank failures, particularly the problem of payment by banks of brokers' fees in order to attract deposits. Apart from the question of the extent to which banks should be deterred from paying brokers' fees, the Legal Division considered the proposed legislation undesirable, for the primary reason that it would deprive deposits of insurance coverage if the bank had paid more for them than interest rate ceilings allowed, and that such removal of insurance would result in confusion, inequity, and impairment of confidence in the safety of

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bank deposits. The Legal Division recommended that the Board authorize its staff to meet with representatives of the Bureau of the Budget, the Treasury, and the Federal Deposit Insurance Corporation in an attempt to formulate an alternative proposal. Attached to the memorandum was a draft of letter to the Bureau of the Budget that would agree there was a problem in need of attention, express reservations as to whether the present proposal represented the best means of solution, and suggest interagency consultation.

Mr. Sanders commented on the Legal Division's objections to the legislative proposal, basic to which was the belief that public confidence in banks requires that a person be able to deposit his money with assurance that it will be insured, whereas under the proposed law, if a bank had paid fees to attract deposits in such manner as to violate the interest rate ceilings, those deposits would become borrowings rather than deposits and thus would not be covered by insurance.

In response to a question from Governor Mitchell regarding the extent to which the proposal by the Federal Deposit Insurance Corporation had been preceded by interagency staff discussion, Mr. Hackley indicated that the General Counsel of the Corporation had discussed the general subject with the Board's Legal Division at intervals for several months, during which conversations the Division had consistently expressed the view that it would be undesirable to take the position, either by legislation or interpretation, that a purported deposit ceases to be a deposit and becomes a borrowing when a bank pays compensation for it in excess



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of the permissible interest rate. The subject had many ramifications, and Mr. Hackley believed that it should be explored further in staff meetings. Mr. Noyes added that conversation with a Treasury Department official indicated that the latter was also of the view that further interagency discussion would be appropriate.

Governor Mitchell commented that the matter seemed to involve a question of the Board's relations with the Federal Deposit Insurance Corporation. He inquired why, if the Board's staff had already made clear that it was not in sympathy with the present proposal, an adverse view should not be stated more definitely in the letter to the Bureau of the Budget. As for the point made by the staff that a depositor who was deprived of insurance because of a change in the status of his funds thereby suffered an injustice, Governor Mitchell suggested that a depositor presumably could surmise that unusual arrangements he had made in connection with his deposit involved a circumvention or violation of interest rate regulations. This would be true particularly in the case of some of the organizations with certificates of deposit in banks that had recently failed.

The staff pointed out that, although some depositors were sufficiently sophisticated to be aware that their transactions involved infraction or circumvention of regulations, there were others less well informed. To these depositors the loss of insurance coverage would constitute an injustice, especially if extra compensation for a deposit had gone to a broker. Moreover, with respect to negotiable certificates



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of deposit, a purchaser other than the original holder might not be aware that his funds were not protected by insurance.

After further discussion during which some members of the Board indicated that they would like additional time to study the matter, action on the report to be made to the Bureau of the Budget was deferred.

Messrs. Noyes, Cardon, Hexter, O'Connell, Hooff, and Sanders then withdrew from the meeting.

Interlocking directorates (Items 4 and 5). There had been distributed a memorandum dated April 1, 1965, from the Legal Division regarding a specific question involving interlocking directorates and a related broader question as to the use being made of the 50 per cent common ownership exception of section 8 of the Clayton Act and the Board's Regulation L, Interlocking Bank Directorates under the Clayton Act. The specific question, which had been raised by the Federal Reserve Bank of Atlanta, concerned the service of Maurice Connell as a director of both Southern Industrial Savings Bank of Miami, Florida, a nonmember bank, and Inter National Bank of Miami, Florida. This interlocking relationship was prohibited by section 8 of the Clayton Act and Regulation L unless it qualified for the exception in section 8(4) of the Act and section 212.2(d)(4) of Regulation L that permitted interlocking directorates between any member bank and " . . . banks, banking associations, savings banks, or trust companies, more than 50 per cent of the common stock of which is owned directly or indirectly by persons who own directly

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or indirectly more than 50 per cent of the common stock of such member bank."

The memorandum reviewed the relevant circumstances of the Connell case, from which it appeared that a Mr. Hoke T. Maroon owned directly more than 50 per cent of the stock of Southern Bank and one share of stock of the national bank. A group of other individuals owned more than 50 per cent of the stock of the national bank and were beneficiaries of a trust, established by Mr. Connell, holding one share of Southern. Accordingly, this group plus Mr. Maroon appeared to constitute "persons who own directly or indirectly more than 50 per cent of the common stock" of each bank. On the basis of the literal language of the exception in section 8(4) of the Clayton Act and the Board's previous position in similar circumstances, the Legal Division recommended that the Board hold that the statute did not forbid Mr. Connell's service as director of the two institutions. A draft of letter to the Federal Reserve Bank of Atlanta reflecting this recommendation was attached to the memorandum.

The Division also recommended, however, that the Federal Reserve Banks be asked to what extent ownership of stock in token amounts was being used as a device to qualify for the exception in section 8(4) of the Clayton Act and thus to frustrate the intent of the law. The information provided by the Reserve Banks would afford a basis for judging whether there was a serious problem of evasion, existing or potential, and therefore whether the Board would wish to have its staff study possible

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ways of closing the loophole through amendment of the statute or of Regulation L. A draft of letter to the Presidents of all Federal Reserve Banks was attached to the memorandum.

After summary comments by Miss Hart and a general discussion concerning the standards set forth in various statutes regarding the Percentage of ownership signifying "control," the letters to the Federal Reserve Bank of Atlanta and to the Presidents of all Federal Reserve Banks were approved unanimously. Copies are attached as Items 4 and 5.

Examination of Federal Reserve Bank of Dallas. There had been circulated to the Board the report of examination of the Federal Reserve Bank of Dallas made by the Board's field examining staff as of February 1, 1965, together with related supplementary memoranda.

Mr. Smith reviewed the examination findings, and there were judged to be no matters concerning which action by the Board at this time was necessary. However, there was some discussion of comments made by Mr. Smith concerning the borrowing record of two member banks, one in San Antonio and the other in Dallas. Both cases had been reviewed by the Division of Examinations with the management of the Reserve Bank, and the San Antonio member bank reportedly had made a commitment to the Reserve Bank to be out of debt within about a month. As to the other member bank (Republic National of Dallas), President Irons had stated reasons why he did not feel the point had yet been reached when there should be a direct approach to the member bank to suggest that it

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make other arrangements. In this connection, Mr. Holland commented that certain information in depth concerning the situation of a bank like Republic might be provided to the Board on the basis of material functioned by the Division of Data Processing, and members of the Board indicated that they would be interested in receiving such information.

Grounds of Board's building. Governor Shepardson commented on possible participation by the Board in a program in which the White House was interested to increase the attractiveness of the premises of Federal agencies, including those located along Constitution Avenue. A report had been requested by the White House from the various departments and agencies, by May 1, on what measures they contemplated. Governor Shepardson described the studies that had been made by the Division of Administrative Services, with assistance from the National Park Service, and displayed papers indicating certain steps that conceivably could be taken. He concluded, however, that the formal type of landscaping of the grounds surrounding the Board's building seemed appropriate and that it would appear doubtful whether the variations that had been suggested would add to the attractiveness of the premises.

After discussion the other members of the Board expressed agreement with the conclusion reached by Governor Shepardson, and it was understood that a reply along such lines would be made to the White House inquiry.

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

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Foreign travel by Mr. Sigel. After consideration of memoranda from interested members of the staff regarding proposed attendance by Mr. Sigel, Assistant to the Director, Division of Research and Statistics, at the 1965 meeting of the International Association for Research in Income and Wealth, to be held in Norway in the first part of September, the Board authorized Mr. Sigel's attendance, with the understanding that Governor Shepardson was authorized to approve the detailed travel arrangements when they were worked out at a later date.

Appointment of President at Minneapolis Bank (Item No. 6).

Advice having been received of action taken this morning by the Board of Directors of the Federal Reserve Bank of Minneapolis, the Board approved the appointment of Hugh D. Galusha, Jr., as President of the Bank, effective May 1, 1965, for the unexpired portion of the five-year term ending February 28, 1966, and payment of salary to him as President at the rate of \$37,500 per annum for the period May 1 through December 31, 1965. A copy of the letter sent to the Bank pursuant to this action is attached as Item No. 6.

The meeting then adjourned.

Secretary's Notes: In accordance with Executive Order No. 11213 and the Treasury regulations issued under that order, a letter was sent today over the signature of Chairman Martin to the Secretary of the Treasury requesting that information returns made by commercial banks under the Interest Equalization Tax Act be open to inspection by six specified members of the Board's staff duly authorized by the Board. A copy of the letter is attached as Item No. 7.



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Governor Shepardson today approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

Acceptance of resignation

Susan K. Rowzie, Secretary, Legal Division, effective at the close of business April 30, 1965.

Permission to engage in outside activity

Robert M. Fisher, Senior Economist, Division of Research and Statistics, to teach a seminar on land use and planning at American University.

  
Secretary

## UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

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In the Matter of the Application of  
FIRST WISCONSIN BANKSHARES CORPORATION,  
Milwaukee, Wisconsin,  
for a Determination under section 4(c)(6)  
of the Bank Holding Company Act of 1956  
with respect to First Wisconsin Company.  
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DOCKET NO. BHC-72

ORDER

First Wisconsin Bankshares Corporation, Milwaukee, Wisconsin, a bank holding company within the meaning of section 2(a) of the Bank Holding Company Act of 1956 (12 U.S.C. § 1841(a)), filed a request on September 14, 1964, for a determination by the Board of Governors of the Federal Reserve System that proposed additions to the activities of its subsidiary, First Wisconsin Company, are of the kind described in section 4(c)(6) of the Act (12 U.S.C. § 1843(c)(6)) and section 222.5(b) of the Board's Regulation Y (12 CFR § 222.5(b)) so as to make it unnecessary for the prohibitions of section 4(a) of the Act, with respect to the acquisition and retention of shares in nonbanking organizations, to apply in order to carry out the purposes of the Act.

Pursuant to the requirement of section 4(c)(6) of the Act and in accordance with the provisions of sections 222.5(b) and 222.7(a)

of the Board's Regulation Y (12 CFR §§ 222.5(b), 222.7(a)), a hearing was held in this matter on November 6, 1964. The Hearing Examiner filed his Report and Recommended Decision on February 3, 1965, a copy of which is appended hereto, wherein he recommended that the request be granted. The time for filing exceptions to the aforesaid Report and Recommended Decision having expired and none having been filed, the Board hereby adopts the findings of fact, conclusions of law, and recommendation embodied therein, and on the basis thereof and of the entire record,

IT IS HEREBY ORDERED, that the proposed additions to the activities of First Wisconsin Company are determined to be so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto and as to make it unnecessary for the prohibitions of section 4(a) of the Bank Holding Company Act of 1956 to apply in order to carry out the purposes of the Act; provided, however, that this determination is subject to revocation if the facts upon which it is based should cease to obtain in any material respect.

Dated at Washington, D. C., this 16th day of April, 1965.

By order of the Board of Governors.

Voting for this action: Chairman Martin, and  
Governors Balderston, Shepardson, and Mitchell.

Absent and not voting: Governors Robertson  
and Daane.

(Signed) Merritt Sherman

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Merritt Sherman,  
Secretary.

(SEAL)

4/15/65

## BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Washington, D. C.

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In the Matter of the Application of  
FIRST OKLAHOMA BANCORPORATION, INC.,  
Oklahoma City, Oklahoma,  
pursuant to section 4(c)(6) of the Bank Holding  
Company Act of 1956 for a determination re the  
proposed First Oklahoma Baninsurance, Inc.,  
Oklahoma City, Oklahoma.  
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ORDER

First Oklahoma Bancorporation, Inc., Oklahoma City, Oklahoma, a bank holding company within the meaning of section 2(a) of the Bank Holding Company Act of 1956 (12 U.S.C. § 1841(a)), filed a request on July 20, 1964, for a determination by the Board of Governors of the Federal Reserve System that the activities planned to be undertaken by its proposed subsidiary, First Oklahoma Baninsurance, Inc., are of the kind described in section 5(c)(6) of the Act (12 U.S.C. § 1843(c)(6)) and section 222.5(b) of the Board's Regulation Y (12 C.F.R. § 222.5(b) so as to make it unnecessary for the prohibitions of section 4(a) of the Act with respect to shares in nonbanking organizations to apply in order to carry out the purposes of the Act.

Pursuant to the requirements of section 4(c)(6) of the Act and in accordance with the provisions of section 222.5(b) and 222.7(a) of the Board's Regulation Y (12 C.F.R. §§ 222.5(b), 222.7(a)), a hearing



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was held in this matter on October 27, 1964. The Hearing Examiner filed his Report and Recommended Decision on February 18, 1965, a copy of which is appended hereto, wherein he recommended that the request be granted. The time for filing exceptions to the aforesaid Report and Recommended Decision having expired and none having been filed, the Board hereby adopts the findings of fact, conclusions of law, and recommendation embodied therein, and on the basis thereof and of the entire record,

IT IS HEREBY ORDERED, that the activities planned to be undertaken by the proposed company, First Oklahoma Baninsurance, Inc., are determined to be so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto and as to make it unnecessary for the prohibitions of section 4(a) of the Bank Holding Company Act of 1956 to apply in order to carry out the purposes of the Act; provided, however, that this determination is subject to revocation if the facts upon which it is based should cease to obtain in any material respect.

Dated at Washington, D. C., this 16th day of April, 1965.

By order of the Board of Governors.

Voting for this action: Chairman Martin, and  
Governors Balderston, Shepardson, and Mitchell.

Absent and not voting: Governors Robertson  
and Daane.

(Signed) Merritt Sherman

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Merritt Sherman,  
Secretary.

(SEAL)





BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

1246  
Item No. 3  
4/15/65

OFFICE OF THE CHAIRMAN

April 16, 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 letter of March 8, 1965, requesting the Board's views on S. 1354, cited as the Housing and Urban Development Act of 1965, "To assist in the provision of housing for low- and moderate-income families, to promote orderly urban development, to improve living environment in urban areas, and to extend and amend laws relating to housing, urban renewal, urban mass transportation, and community facilities."

Besides extending or amending a number of current programs, the bill includes additional authorizations for major existing programs over a four-year period totaling: (a) \$2.9 billion for urban renewal; (b) \$188 million in annual grants for low-rent public housing; (c) over \$2.3 billion for FNMA special assistance; and (d) \$955 million for low-cost college housing loans.

The major new programs would include: (a) \$200 million yearly by fiscal 1969 for annual grants payable to certain private landlords to subsidize the rents of qualified lower-income tenants; (b) FHA insurance of mortgages up to \$25 million each to help finance large-scale private land development primarily for residential sites, related uses, or public facilities; (c) loans to public land development agencies to cover the cost of acquiring land for future resale; (d) matching grants to certain public agencies for designated public works, neighborhood facilities, advance land acquisition, and urban beautification and improvement.

In addition to the above, the direct-loan rural-housing program, which is administered by the Farmers Home Administration under the Secretary of Agriculture, would be broadened to permit, among other things, loans to be made or insured to finance the purchase of "previously occupied" dwellings and land as well as the building or improvement of such facilities by owner occupants. For "persons of low or moderate income as defined by the Secretary," insured loans would carry an interest rate no higher than 5 per cent.

The Honorable A. Willis Robertson

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While the Board has no special knowledge in the area of housing and urban development, it recognizes the current and future need for better housing and improved neighborhoods and cities to the degree that these objectives can be achieved within the broader economic framework of stable growth and sound financing. The Board, therefore, has reviewed this bill in the light of the basic principles, to which the Board subscribes, outlined in the Report of the Committee on Federal Credit Programs transmitted by the President on February 11, 1963, for the guidance of all departments and agencies that administer Federal credit programs, especially where any new or expanded credit authority is proposed.

The provisions of the bill authorizing rental subsidy payments are designed to provide "standard" housing for certain groups whose incomes are too high to qualify for admission to public housing and too low to afford standard housing available from private sources at generally no more than one fifth of their income. Within this income range, those helped would include the elderly or handicapped, families displaced by governmental action, and occupants of substandard housing. A direct rental payments program should permit fuller disclosure of the extent of subsidy involved, in line with the approach recommended in the Report of the Committee on Federal Credit Programs. This is in contrast with certain existing programs with similar objectives which operate through interest rate subsidies.

To the extent that proposed changes in the Farmers Home Administration rural housing programs would encourage greater participation by private lenders, the objectives of the Committee on Federal Credit Programs would also be implemented. On the other hand, the fixed-rate ceiling on rural housing loans to persons of low or moderate income would be inconsistent with the Committee's guidelines. Moreover, the 5 per cent rate might not be sufficient to encourage much private participation at par.

The bill would extend mortgage insurance by the Federal Housing Administration to land development loans "to prepare land primarily for residential and related uses or to provide facilities for public or common use." This represents an effort to encourage private institutions to finance land development in ways consistent with public needs for urban planning. It should be noted, however, that the bill provides no control over the final selling price of the land, plus improvements and dwellings. Thus it is possible that some hoped-for benefits of Federal insurance in terms of reduced costs might not be passed through to final purchasers.

Certain provisions of the bill appear to run counter to the guidelines of the Report on Federal Credit Programs. An aggregate increase of over \$2.3 billion in FNMA special assistance authority that would support certain housing programs with Treasury-borrowed

## BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

The Honorable A. Willis Robertson    -3-

funds, in effect, tends to substitute public for private credit and to conceal rather than to reveal the full amount of the subsidy involved. Similarly, \$955 million additional would be provided for college housing loans to be made for up to 40 years at an interest rate fixed by statute, whereas the Committee Report recommended either market rates or at least flexible rates that would be as variable as market rates and current Treasury-borrowing costs.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Item No.4  
4/15/65

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 16, 1965.

Mr. David Webb, Assistant to Counsel,  
Federal Reserve Bank of Atlanta,  
Atlanta, Georgia. 30303

Dear Mr. Webb:

This is in response to your letter of January 12, 1965, concerning whether the interlocking service of Maurice Connell as director of Southern Industrial Savings Bank of Miami, Florida ("Southern"), a nonmember bank, and the Inter National Bank of Miami, Florida ("National Bank"), is excepted from the general prohibition in section 8 of the Clayton Act by the exception in paragraph (4) of the statute. That exception permits interlocking directorates between any member bank and

" . . . banks . . . more than 50 per cent of the common stock of which is owned directly or indirectly by persons who own directly or indirectly more than 50 per cent of the common stock of such member bank."

It is understood that more than 50 per cent of the common stock of Southern is directly owned by Mr. Maroon. In addition, one share of Southern is indirectly and jointly owned by the controlling shareholders of National Bank. Mr. Maroon owns one share of National Bank, so that these same shareholders, together with Mr. Maroon, own directly more than 50 per cent of the shares of National Bank. Literally, therefore, "more than 50 per cent of the common stock of" the nonmember bank "is owned directly or indirectly by persons who directly own more than 50 per cent of the common stock of such member bank."

Prior to the amendments to the statute in 1935, the Board was authorized to permit interlocking services in individual cases if the Board found that the banks involved were not in substantial competition with one another and where the relationship would be compatible with the public interest. In order to put an end to the administrative difficulties that had developed under the statute, the purpose of the 1935 amendments was to make the prohibition in the law subject to specific exceptions that would not depend for their application upon administrative action.



Mr. David Webb

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The Board has concluded that the exception in paragraph (4) of the Act applies to the interlocking relationships in question even though the common ownership between the two banks is small and in extremely different proportions, and seems clearly to have been acquired to avoid the restriction of section 8 of the Clayton Act. This conclusion conforms to the principle of previous interpretations in similar situations.

In connection with this matter, your attention is invited to a letter of this date which has been mailed to the Presidents of all Federal Reserve Banks asking that the Board be supplied with information concerning the extent to which cases such as this one may exist in the various Federal Reserve Districts.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.





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

1251  
Item No. 5  
4/15/65

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 16, 1965.

Dear Sir:

Several recent cases have come to the Board's attention in which nominal stock ownership in a bank has been acquired for the purpose of avoiding the provisions of section 8 of the Clayton Act that forbid persons to serve two or more banks as directors, officers, or employees. This has been possible under an exception contained in the statute which permits such service where the same persons own 50 per cent or more of the stock of each bank concerned. In the cases mentioned, controlling shareholders in each bank have acquired one share, or a very few shares, in the other, so that when they are taken together, the controlling shareholders of both banks constitute a group of "persons who own . . . more than 50 per centum of the common stock of" each of the banks.

In enacting section 8, Congress intended to prevent interlocking relationships from leading to control of banks that were in substantial competition with one another and where the relationship would not be compatible with the public interest. Subsequently, Congress wrote certain exceptions into the statute permitting interlocking service where the banks involved were thought not to compete, and one of these exceptions covered the case where the two banks were already effectively under common control because a majority of the stock of each was owned by the same person or group of persons.

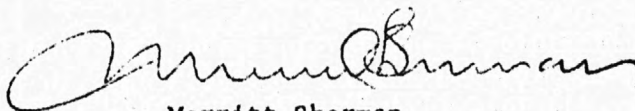
It is clear that such common control is not likely to exist where, for example, the controlling shareholder in Bank A buys a single share of stock in Bank B, and declares himself trustee of a single share of Bank A's stock for the benefit of shareholders of Bank B, then argues that there is a "group" of persons who control both banks.

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Before considering whether it might be desirable for the Board to attempt to close such an avenue of avoidance by an amendment to Regulation L, or by recommending to Congress an amendment to the statute, the Board believes that it should be informed of the number of such cases already known to the Federal Reserve Banks. Accordingly, the Board would appreciate receiving from your Bank information as to such cases that may be known to exist. It would also seem desirable that such information be centralized at the Board in view of the possibility of revision of the provisions of section 8. In this latter connection, you will recall that last year the Board was asked to report on H. R. 10506 which would have broadened substantially the application of section 8 of the Clayton Act. A copy of the Board's report on that bill was supplied to your Bank under date of June 8, 1964. Also, a report of the staff of the Antitrust Subcommittee of the House Committee on the Judiciary concerning interlocks in corporate management dated March 12, 1965, has recently been released.

Your assistance in this connection will be appreciated.

Very truly yours,



Merritt Sherman,  
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Item No. 6  
4/15/65



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

OFFICE OF THE CHAIRMAN

April 16, 1965

CONFIDENTIAL (FR)

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

Dear Atherton:

The Board of Governors has approved the appointment of Mr. Hugh D. Galusha, Jr., as President of the Federal Reserve Bank of Minneapolis, effective May 1, 1965, for the unexpired portion of the five-year term ending February 28, 1966.

The Board also approved the payment of salary to Mr. Galusha as President for the period May 1 through December 31, 1965, at the rate of \$37,500 per annum, the rate fixed by your Board of Directors.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

4/15/65



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

OFFICE OF THE CHAIRMAN

April 15, 1965.

The Honorable Henry H. Fowler,  
Secretary of the Treasury,  
Washington, D. C. 20220.

Dear Joe:

In accordance with Executive Order No. 11213 and the Treasury regulations issued under that order, the Board of Governors of the Federal Reserve System hereby requests that information returns made by commercial banks under the Interest Equalization Tax Act be open to inspection by the following members of the Board's staff duly authorized by the Board:

1. Ralph A. Young, Adviser to the Board and Director, Division of International Finance;
2. Robert L. Sammons, Adviser, Division of International Finance;
3. Frederick R. Dahl, Chief, Special Studies and Operations Section, Division of International Finance;
4. Robert F. Gemmill, Economist, Special Studies and Operations Section, Division of International Finance;
5. Frederic B. Ruckdeschel, Economist, Special Studies and Operations Section, Division of International Finance; and
6. Mrs. Alton C. James, Clerk, Special Studies and Operations Section, Division of International Finance.

Procedures have been established within the Board of Governors to assure that inspection of these returns will be limited to the members of the Board's staff named above.

Sincerely yours,

A handwritten signature in cursive script, reading "Wm. McC. Martin, Jr.", is written over the typed name.

Wm. McC. Martin, Jr.