

Minutes for April 27, 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

(Handwritten initials: MW)
(Handwritten initials: CCB)
(Handwritten initials: SPS)
(Handwritten initials: MM)
(Handwritten initials: DA)

Minutes of the Board of Governors of the Federal Reserve System
on Tuesday, April 27, 1965. The Board met in the Board Room at 10:30 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Noyes, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and
Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Shay, Assistant General Counsel
Mr. Holland, Associate Director, Division of
Research and Statistics
Mr. Daniels, Assistant Director, Division of
Bank Operations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Thompson, Assistant Director, Division of
Examinations
Mr. Langham, Assistant Director, Division of
Data Processing
Mrs. Semia, Technical Assistant, Office of the
Secretary
Messrs. Forrestal and Robinson, Attorneys,
Legal Division
Mr. Egertson, Supervisory Review Examiner,
Division of Examinations
Mr. Smith, Senior Economist, Division of Research
and Statistics

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on April 26, 1965, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

4/27/65

-2-

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 Marine Midland Trust Company of Rockland County, Nyack, New York, approving the establishment of a branch in Bardonia, Town of Clarkstown.	1
Letter to Liberty State Bank, Hamtramck, Michigan, approving the establishment of a branch in Sterling Township.	2
Letters to Farmers and Merchants Bank of Long Beach, Long Beach, California, approving the establishment of branches in the Lakewood Shopping Center, Lakewood, and near Woodruff and Rosecrans Avenues, Bellflower.	3-4
Letter to the Federal Reserve Bank of Cleveland regarding classification of member banks in the Fourth District for the purpose of electing Class A and Class B directors.	5
Letter to the Federal Reserve Bank of New York granting the request of Marine Midland Corporation, Buffalo, New York, for an extension of time to file its 1964 annual report as required by the Board's Regulation Y, Bank Holding Companies.	6
Letter to the Bureau of the Budget reporting on a draft bill to amend the National Housing Act and the Federal Deposit Insurance Act.	7
Letter to Chairman Patman of the House Banking and Currency Committee reporting on bill H. R. 7133, relating to the placing of authority to approve the establishment of State member bank branches, organization of new national banks and establishment of their domestic branches, and admission of noninsured State banks to membership in the Federal Reserve System. (The letter in the form transmitted reflected changes suggested by Mr. Hackley during discussion.)	8

4/27/65

-3-

With reference to Item No. 8, Governor Robertson stated that during his recent appearance before the Subcommittee on Bank Supervision and Insurance of the House Banking and Currency Committee to testify on bills introduced by Congressmen Patman and Multer to unify bank supervision at the Federal level, he was also asked for his views on H. R. 7133. He had subsequently sent a letter to Subcommittee Chairman Multer expressing his views, which he thought did not differ significantly in tenor from those stated in the Board's letter. He added that a copy of his letter was being made available to the other members of the Board for their information.

Report on competitive factors (Turtle Lake-Washburn, North Dakota). A report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed acquisition of certain assets and assumption of certain liabilities of The Farmers Security Bank of Washburn, Washburn, North Dakota, by Bank of Turtle Lake, Turtle Lake, North Dakota, was approved unanimously for transmittal to the Corporation. The conclusion read as follows:

The proposed acquisition of certain assets and assumption of certain liabilities of The Farmers Security Bank of Washburn, Washburn, North Dakota, by Bank of Turtle Lake, Turtle Lake, North Dakota, would have no adverse effect on competition.

Mr. Egertson then withdrew from the meeting.

Requests from Chairman Patman (Item No. 9). There had been distributed a memorandum dated April 26, 1965, in which Messrs. Langham

4/27/65

-4-

and Holland, after commenting on a request from Chairman Patman of the House Banking and Currency Committee that the Board's staff bring up to date and expand studies of banking concentration made in 1952 and 1962, recommended that the Board agree to provide the material requested, with a qualifying assumption as to the amount of staff time to be committed. A draft of letter to Chairman Patman reflecting that recommendation was attached.

After discussion, the letter was approved unanimously. A copy is attached as Item No. 9.

Mr. Sherman reported that Chairman Patman had also requested that the data from the 1962 study of chain banking be reactivated to obtain information on nominees, and perhaps brokers, identified as bank stockholders. It was estimated that the necessary tabulating work would require approximately 3 or 4 days.

Compliance with this request by Chairman Patman was also approved unanimously.

Report on S. 1698 (Item No. 10). On the basis of a distributed memorandum dated April 20, 1965, from the Legal Division the Board on April 22 discussed the response to be made to a request from the Senate Banking and Currency Committee for a report on bill S. 1698, which would amend the Bank Merger Act to exempt bank mergers from the Federal anti-trust laws. There had now been distributed a draft of reply to Chairman Robertson of the Committee revised to reflect the tenor of the April 22 discussion.

4/27/65

-5-

Governor Robertson made certain suggestions for changes in the draft letter, which changes proved acceptable to the other members of the Board, and the letter was then approved unanimously in the form attached as Item No. 10.

Loans to foreign affiliates (Items 11 and 12). There had been distributed a memorandum dated April 20, 1965, from the Legal Division regarding a request by Mr. George Champion, Chairman of The Chase Manhattan Bank, New York City, that the Board recommend legislation that would exempt from the limitations of section 23A of the Federal Reserve Act loans or extensions of credit by a member bank to any subsidiary of an Edge Act or agreement corporation subsidiary of the bank.

Section 23A, with certain exceptions, required each loan or extension of credit by a member bank to an affiliate to be secured by collateral equal to at least 120 per cent of the amount of the credit, or 110 per cent of the credit if the collateral consisted of certain kinds of obligations. The statute also contained limitations on the amount of credit that a member bank could extend to one affiliate and to all affiliates combined. The restrictions did not apply to a member bank's Edge Act or agreement corporation, nor to subsidiaries wholly-owned by such a corporation, but did apply to Edge Act or agreement corporation subsidiaries that were not wholly-owned. The Board had in the past agreed in principle that it was unnecessary that the restrictions apply to majority-owned subsidiaries of Edge Act and agreement corporations

4/27/65

-6-

in order to prevent the practices at which section 23A was directed. In recommendations submitted to the Congressional Banking and Currency Committees on March 15, 1965, for amendments to the Bank Holding Company Act, the Board included a section exempting from the security requirements of section 23A an affiliate principally engaged in banking. However, no bill had as yet been introduced embodying these legislative recommendations. The memorandum noted that it was understood informally that the difficulties in relations with foreign affiliates that Chase Manhattan had mentioned in support of its request would be resolved by an exemption extending only to the security requirements of section 23A.

With the thought that, even though a similar recommendation had been included in the proposed Bank Holding Company Act amendments, the Board might wish to request that a separate bill to amend section 23A be introduced, a draft of such a bill was attached to the memorandum. Also attached were a draft of transmittal letter to the Senate and House Committees on Banking and Currency and a draft of letter that would inform Mr. Champion that the Board had submitted the recommendation to Congress.

After a discussion during which there was agreement with suggestions for deletion of one sentence in the proposed letter to the Banking and Currency Committees and for an editorial change in the draft bill, the letters to the Committees and to Mr. Champion were approved

4/27/65

-7-

unanimously. A copy of the letter sent to the Chairman of the Senate Committee is attached as Item No. 11. (A similar letter was sent to the Chairman of the House Committee.) A copy of the letter to Mr. Champion is attached as Item No. 12.

Messrs. Shay, Holland, Langham, Forrestal, and Smith then withdrew from the meeting.

Application of Denver U.S. Bancorporation. A memorandum from the Division of Examinations dated April 14, 1965, and other pertinent papers had been distributed in connection with an application by Denver U.S. Bancorporation, Denver, Colorado, for permission to acquire shares of Weld County Bank, Greeley, Colorado. The Division's recommendation was favorable.

Mr. Thompson summarized the circumstances involved in the application, after which he responded to several questions posed by members of the Board.

Governor Robertson stated that he would approve, his favorable position being based to a significant extent on the opinion of the Colorado State Bank Commissioner that the acquisition would be beneficial to Weld County Bank and would eliminate some of the problems existing at that bank. (The Commissioner had commented that the bank had been a problem bank in the past, had been weak in management in some areas, and was presently in an undercapitalized position.) Governor Robertson added, however, that in 1963 when the Board authorized Denver U.S. Bancorporation

4/27/65

-8-

to become a bank holding company he had expressed the expectation that the corporation would make further efforts to expand. The present application was a case in point. In his view, if the Board did not at some stage call a halt, Denver U.S. would eventually grow into an organization that would effectively circumvent Colorado's law prohibiting branch banking.

The other members of the Board also indicated that they would vote for approval.

The application was thereupon approved unanimously, with the understanding that an order and statement reflecting this decision would be drafted for the Board's consideration.

Messrs. Noyes, Leavitt, Thompson, and Robinson then withdrew from the meeting.

New York building program (Item No. 13). On April 13, 1965, the Board discussed with First Vice President Treiber and Vice President Bilby of the Federal Reserve Bank of New York the request made by the Bank in a letter of March 11, 1965, for authority to arrange for termination or substantial shortening of leases or for other action that would reduce the cost of obtaining possession of buildings across Maiden Lane from the Reserve Bank that had been acquired as a building site. There had now been distributed a draft of letter to Mr. Treiber that would grant authority to the Bank to arrange for termination of leases where this could be done advantageously, without a specific limitation on cost

4/27/65

-9-

but with the request that proposed action to terminate any particular lease be discussed with the Board in advance if the cost involved would be a great deal larger than the figure of \$25,000 mentioned as a limitation in the March 11 letter.

Governor Mitchell observed that the letter did not mention that the Board expected the Bank to submit the results of its current study of projected space needs, including its recommendation as to timing of the beginning of construction of a new building. Response was made that this point had been omitted because of expressions by members of the Board during the April 13 discussion to the effect that the question of timing was a matter to be resolved separately and because it seemed to have been fully understood that the study and recommendations would be forthcoming from the Bank in due course.

After further discussion during which there was agreement on a suggested minor change in wording, the letter was approved unanimously in the form attached as Item No. 13.

Request of American City Bank and Trust Company (Items 14 and 15). Chairman Martin referred to the request of American City Bank and Trust Company, Milwaukee, Wisconsin, for permission to carry reduced reserves, on which the Board decided to defer action after discussion on April 16, 1965. He suggested that, since the Federal Reserve Bank of Chicago, including its directors, had recommended approval of the original request, President Scanlon be advised of the letters that had been prepared reflecting the Board's decision and invited to submit additional comments if the Reserve Bank so desired.

4/27/65

-10-

There was agreement with this suggestion, it being understood that unless President Scanlon wanted to have the matter reconsidered, American City Bank and Trust Company would be informed of the Board's decision by letter transmitted through the Reserve Bank.

Secretary's Note: Messrs. Sherman and Daniels subsequently discussed the matter by telephone with President Scanlon, who suggested that the letter be forwarded to him. Accordingly, letters addressed to the Reserve Bank and to American City Bank and Trust Company were mailed to President Scanlon. Copies are attached as Items 14 and 15.

Luncheon for Governor Maisel. Chairman Martin noted that it was planned to have a luncheon on May 11, 1965, and an afternoon reception in honor of Sherman J. Maisel, who would by then have taken office as a member of the Board. The date was one on which the Presidents of the Reserve Banks would be in Washington for a Federal Open Market Committee meeting, and the meeting would be the first attended by Hugh D. Galusha, Jr., who was to assume the Presidency of the Federal Reserve Bank of Minneapolis on May 1. Following the luncheon, arrangements would be made for a meeting, which Assistant Secretary of the Treasury Wallace had requested, for further discussion of the coin problem with the Reserve Bank Presidents.

All members of the staff except Messrs. Sherman and Brill then withdrew from the meeting.

Call for condition reports. The Chairman of the Federal Deposit Insurance Corporation, the Acting Comptroller of the Currency, and the Chairman of the Board of Governors had selected the close of business

4/27/65

-11-

April 26, 1965, as the date for the first call for reports of condition to be made by insured banks within the calendar year 1965. The call was to be announced on Thursday, April 29. Accordingly, the usual telegram had been sent this morning to the Presidents of the Federal Reserve Banks requesting that a call be made upon State member banks on April 29 for reports of condition as of the close of business April 26.

The sending of the telegram was ratified by unanimous vote.

At this point Mr. Sprecher, Assistant Director, Division of Personnel Administration, joined the meeting.

Training program. At Governor Shepardson's request, Mr. Brill outlined a suggestion that had been advanced for strengthening the Board's recruitment program in the economic and related areas of staff work by offering assistance to selected younger persons in the preparation of their doctoral dissertations. Under this proposal, which would represent an extension of the Employee Training and Development Program, a limited number of well-qualified applicants would be offered, in connection with their employment with the Board's staff, an appropriate amount of time to devote to the preparation of their theses, typing and clerical assistance in connection with such dissertations, and occasional trips at Board expense to their respective campuses for consultation with members of the faculty. Every effort would be made to insure that the parties involved brought their dissertations to the stage of completion and submission. In other respects also, the responsible members of the

4/27/65

-12-

Board's staff would be expected to exercise close supervision over the program, including careful screening of all travel requests incident to proposed campus visitations.

The discussion resulted in authorization to implement the proposal on an experimental basis as an extension of the Employee Training and Development Program, with the understanding that the appropriate officers of the Board's staff would assume responsibility for close supervision of all aspects of the project, including such travel as might be involved, to insure that its scope was suitably restricted.

The meeting then adjourned.

Secretary's Notes: On March 3, 1965, the Board approved the issuance of a set of guidelines for the use of commercial banks under the voluntary foreign credit restraint effort, a part of the President's balance of payments program. With the approval of Governor Robertson, acting under the authority vested in him by the Board for administration of Federal Reserve functions related to the conduct of the voluntary program, there was sent today to the Presidents of the Federal Reserve Banks, for transmittal to all commercial banks with a suggested covering letter, a revision of guideline 13, having to do with loans to U. S. residents and substitution of domestic credit for credit from foreign sources. A copy of the text of the revised guideline is attached as Item No. 16.

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

4/27/65

-13-

Letter to the Comptroller of the Currency (copy attached as Item No. 17) requesting that a supplemental order be placed with the Bureau of Engraving and Printing for the printing of \$1 Federal Reserve notes of the Federal Reserve Banks of Minneapolis and San Francisco during fiscal year 1965.

Letter to the Federal Reserve Bank of Chicago (copy attached as Item No. 18) approving the designation of William J. Hocter as special assistant examiner.

Memorandum from the Division of International Finance dated April 22, 1965, recommending that an additional position of Economist be established in the Special Studies and Operations Section of that Division.

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

Salary increases

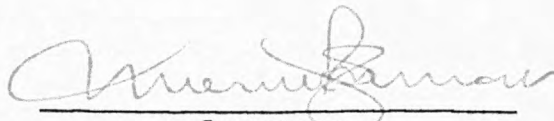
Lee S. Elliott, Supervisor, Clearing Unit, Office of the Secretary, from \$6,450 to \$6,650 per annum, effective April 26, 1965.

Johnny S. Fox, Jr., Messenger, Division of Administrative Services, from \$3,500 to \$3,805 per annum, with a change in title to Messenger-Driver, effective April 26, 1965.

Permission to engage in outside activity

Perry Williams, Jr., Supply Clerk, Division of Administrative Services, to work as a cab driver on a part-time basis.

Governor Shepardson today approved on behalf of the Board a telegram to the Federal Reserve Bank of Atlanta (copy attached as Item No. 19) approving the designation of Donald L. Charles as special assistant examiner.


Secretary

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

Item No. 1
4/27/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 27, 1965

Board of Directors,
Marine Midland Trust Company of Rockland County,
Nyack, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Marine Midland Trust Company of Rockland County, Nyack, New York, of a branch at 340 Route 304, Bardonia (unincorporated area), Town of Clarkstown, Rockland County, New York, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

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

Item No. 2
4/27/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 27, 1965



Board of Directors,
Liberty State Bank,
Hamtramck, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Liberty State Bank, Hamtramck, Michigan, of a branch at 44474 Van Dyke Road, Sterling Township, Macomb County, Michigan, 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
4/27/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 27, 1965

Board of Directors,
Farmers and Merchants Bank of Long Beach,
Long Beach, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Farmers and Merchants Bank of Long Beach, Long Beach, California, of a branch on Graywood Avenue in the Lakewood Shopping Center, Lakewood, Los Angeles County, California, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

1404

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4
4/27/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 27, 1965



Board of Directors,
Farmers and Merchants Bank of Long Beach,
Long Beach, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Farmers and Merchants Bank of Long Beach, Long Beach, California, of a branch in the vicinity of the southwest corner of the intersection of Woodruff and Rosecrans Avenues, Bellflower, Los Angeles County, California, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

1405

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

Item No. 5
4/27/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 27, 1965

Mr. W. Braddock Hickman, President,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio. 44101

Dear Mr. Hickman:

This refers to your letter of April 8, 1965, concerning reclassification of member banks in the Fourth District for the purpose of electing Class A and Class B Directors.

It is noted that after reviewing the present classification, which has been in effect since April 26, 1961, your Bank believes that it is satisfactory. The Board concurs in this opinion and will make no change in the existing classification at this time.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6
4/27/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 27, 1965



Mr. J. P. Ringen, Manager,
Bank Examinations Department,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Ringen:

Please advise Marine Midland Corporation,
Buffalo, New York, that the Board has granted its
request for an extension of fifteen days to May 15,
1965, for the filing of its annual report to the
Board for the year 1964.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.



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

1407
Item No. 7
4/27/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 27, 1965.

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

Dear Mr. Hughes:

This is in response to your memorandum of April 22, 1965, requesting the Board's views on a draft bill proposed by the Federal Home Loan Bank Board "To amend section 402 of the National Housing Act and section 14 of the Federal Deposit Insurance Act, and for other purposes."

This is to advise that the Board has no objection to the proposed legislation.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

1408



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 8
4/27/65

OFFICE OF THE CHAIRMAN

April 27, 1965.

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

Dear Mr. Chairman:

This is in response to your request of April 15, 1965 for a report on H. R. 7133 "To amend the Federal Reserve Act, the Federal Deposit Insurance Act, and section 5155 of the Revised Statutes, as amended, and for other purposes".

It appears that the effect of this bill would be to require (1) the consent of the Federal Deposit Insurance Corporation, instead of that of the Board of Governors, for the establishment of branches by State member banks, (2) the consent of the Federal Deposit Insurance Corporation, in addition to that of the Comptroller of the Currency, for the organization of new national banks and the establishment of domestic branches by such banks, and (3) the consent of the Federal Deposit Insurance Corporation, in addition to that of the Board of Governors, in connection with the admission of any noninsured State bank to membership in the Federal Reserve System. The bill might also be regarded as requiring the consent of the FDIC, in addition to that of the Board of Governors, for the establishment of foreign branches of national banks, although this point is not clear.

In the Board's opinion, there is no sound reason for transferring to the FDIC the Board's present authority to approve branches of State member banks. Moreover, this bill would create additional confusion and duplication of functions in the area of Federal bank supervision. It would mean, for example, that a national bank charter or a branch of a national bank would require the approval of two Federal banking agencies instead of one agency as under present law.

Accordingly, the Board would not favor the enactment of H. R. 7133.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 9
4/27/65

OFFICE OF THE CHAIRMAN

April 27, 1965.

The Honorable Wright Patman,
Chairman,
House Banking and Currency Committee,
2129 Rayburn House Office Building,
Washington, D. C. 20515.

Dear Mr. Chairman:

This is in reply to your letter of April 14, 1965 requesting that the Board's staff update and expand two of its economic studies dealing with banking concentration.

While a firm estimate of the amount of work required for this project must be delayed pending more detailed discussions between our staffs, the Board assumes the scope of the study as it finally materializes will be held within manageable limits. On this basis, the Board's staff will proceed with the planning necessary to launch this project and will consult with your staff as the study develops.

Sincerely yours,

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

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

1410
Item No. 10
4/27/65

OFFICE OF THE CHAIRMAN

April 27, 1965.

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

Dear Mr. Chairman:

This refers to your requests of April 6 and April 7, 1965, for a report on your bill, S. 1698, which would amend the Bank Merger Act (12 U.S.C. 1828(c)) to exempt bank mergers from the Federal anti-trust laws.

Under the bill, the authority of the Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation to approve mergers and other transactions covered by the Bank Merger Act would be "exclusive and plenary". Banks participating in transactions approved under the Act would be relieved by the bill, as to such transactions, from the operation of the Sherman Antitrust Act and the Clayton Act. This would be true whether the particular transaction "has been or is hereafter consummated". The bill also would exempt from the antitrust laws any bank merger or similar transaction consummated pursuant to the approval of the appropriate State or Federal bank supervisory authority prior to the date of enactment of the Bank Merger Act (May 13, 1960). In introducing the bill on April 5, 1965, you indicated that it is intended "to be applicable not only to future mergers but to all mergers heretofore consummated pursuant to appropriate regulatory approval including mergers now under attack by the Department of Justice under the antitrust laws".

Because banking is a licensed, strictly regulated, and closely supervised industry that offers problems acutely different from other types of businesses, the Congress, in enacting the Bank Merger Act, deliberately chose to place the authority to pass on bank mergers in the Federal bank supervisory agencies. Of course, the competitive effects or possible antitrust implications of bank absorptions obviously were the major reason prompting adoption of the measure. It is abundantly clear from the legislative history of the Act, however, that the Congress did not believe the public interest would be served best if the legality of bank mergers were to be tested by competitive factors alone, to the exclusion of banking factors, including offsetting benefits to the public.

The Honorable A. Willis Robertson -2-

The Bank Merger Act contains no specific exemption from the antitrust laws for bank mergers, and the legislative history of the Act indicates that this was not an inadvertence. On the other hand - and as the legislative history emphasizes - at the time of enactment of the Act it was generally understood that section 7 of the Clayton Act, as amended in 1950, was inapplicable to bank mergers, and there was little or no experience by which to judge the usefulness of the Sherman Act in dealing with such matters.

In any event, the Congress specifically rejected a proposal that antitrust standards be adopted as the criteria for approvals of bank mergers, as well as a proposal that the Attorney General be permitted to intervene and obtain court reviews in bank merger cases pending before the Federal bank supervisory agencies. Instead, the Congress, in deciding to rely on the requirement for advance approvals by the banking agencies, concluded that agency consideration in such cases of the anti-trust implications would be aided sufficiently by the requirement in the Bank Merger Act for advisory reports from the Attorney General on the competitive factors involved. And, in the words of your Committee in reporting the measure, "The advance approval feature is important in halting bank acquisitions before they are consummated and in preserving the depositors' confidence in an institution which might otherwise be destroyed by an attempt to unscramble assets after an acquisition has been completed." (S. Report No. 196 on S. 1062, April 17, 1959, p. 22)

Well known are the problems that have resulted from the recent antitrust court cases involving bank mergers. This litigation makes unmistakably clear that banks and their customers now face the uncertainty that, even though merger proposals receive the advance approval of the appropriate Federal banking agency, the transactions are subject to veto in the courts on the basis of competitive or anti-trust considerations alone. Indeed, protracted antitrust litigation to unscramble a merger risks detrimental effects on the bank involved and the public.

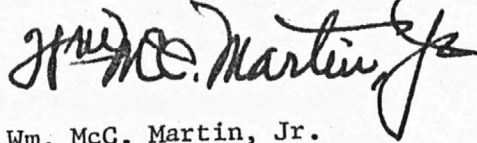
The Board believes that the Congress should examine the situation with a view to prompt correction and urges enactment of legislation such as that proposed in your bill.

Should the Congress, however, be unable to agree on the approach to the problem proposed in S. 1698, it might wish to consider other, although less positive, measures. One such possibility would be to amend the Bank Merger Act to allow a specified time necessary for the filing of an antitrust action in court to prevent consummation of an approved transaction, after which, in the absence of such an action, the merger could be consummated and would be exempt from the antitrust laws. Because the Attorney General receives ample notice of pending

The Honorable A. Willis Robertson -3-

mergers under the procedure in the Act for the submission of competitive factors reports, the specified period should be relatively short.

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. 11
4/27/65

OFFICE OF THE CHAIRMAN

April 27, 1965.

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

Dear Mr. Chairman:

There is enclosed for your consideration a draft of a proposed bill which would exempt from the security requirements of section 23A of the Federal Reserve Act those foreign banks which are controlled by a member bank through an Edge Act or Agreement corporation organized pursuant to the provisions of sections 25 and 25(a) of the Federal Reserve Act.

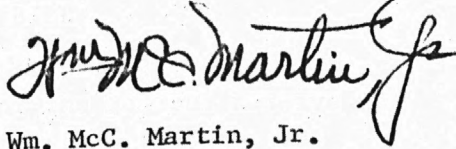
Under the provisions of section 23A of the Federal Reserve Act, as amended (12 U.S.C. 371c), member banks may not make loans or extensions of credit to affiliates except against collateral of at least 120 per cent of the amount of the loan or extension of credit (or 110 per cent if the collateral represents obligations of certain Governmental entities in the United States). These restrictions do not apply to any Edge Act or Agreement corporation which is an affiliate, nor to any wholly-owned subsidiary of such affiliate. However, if the member bank owns through an Edge Act or Agreement corporation an interest in a foreign commercial bank which is less than 100 per cent, the restrictions are applicable and any loan or extension of credit to the foreign commercial bank must be secured as prescribed. Normal commercial banking relations are needlessly impaired under such restrictions.

The legislative history of section 23A suggests that its original purpose was not to restrict normal commercial banking relationships but was rather to prohibit the practice of making loans to affiliates so that they could invest in speculative securities. Such practices are not possible in the case of affiliations arising through Edge Act holdings. The broad regulatory authority of the Board of Governors of the Federal Reserve System is sufficient to insure against any practices which would be inconsistent with the purposes of the prohibitions contained in section 23A. Under these circumstances, there is no reason to continue the applicability of the existing prohibitions to this situation particularly since, as indicated above, they do not at present apply in the case of a wholly-owned subsidiary of an Edge Act or Agreement corporation, but only in the case of a partly owned subsidiary.

The Honorable A. Willis Robertson -2-

The Board recommends that the proposed legislation be enacted into law and urges prompt and favorable consideration of this proposal by your Committee.

Sincerely yours,

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

Wm. McC. Martin, Jr.

Enclosure

A BILL

To amend section 23A of the Federal Reserve Act

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, that the second paragraph of section 23A of the Federal Reserve Act, as amended (12 U.S.C. 371c), is amended by adding at the end thereof the following new sentence:

"The limitations contained in the first sentence of this paragraph shall not apply to any affiliate that is organized under the laws of a foreign country or a dependency or insular possession of the United States and is principally engaged in banking."



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

1416
Item No. 12
4/27/65

OFFICE OF THE CHAIRMAN

April 27, 1965.

Mr. George Champion, Chairman,
The Chase Manhattan Bank,
1 Chase Manhattan Plaza,
New York, New York. 10015

Dear George:

This is in reply to your letter of April 7, 1965, containing a proposal to amend section 23A of the Federal Reserve Act. As you know, the Board for some time has been sympathetic with the position in which member banks find themselves due to the restrictions of section 23A which make it impossible for member banks to make unsecured loans or extensions of credit to affiliates, other than Edge or Agreement corporations or wholly-owned subsidiaries of such corporations.

The degree of control which is currently exercised by the Board over Edge and Agreement corporations makes the provisions of section 23A no longer necessary with respect to subsidiaries of these corporations and, as you know, the Board in the past has recommended that this section be amended.

The Board, as recently as March 15, 1965, as part of its proposed legislation to amend the Bank Holding Company Act of 1956, recommended that section 23A of the Federal Reserve Act be amended so as to exempt from the collateral security requirements of section 23A those foreign banks which are controlled by a member bank through an Edge or Agreement corporation. This amendment would permit continuance of the normal correspondent relationship usually in existence prior to the acquisition of stock interest in the foreign bank. This legislation, however, has not yet been introduced into the Congress.

In order to aid in accomplishing the result which you and other member banks desire, the Board has transmitted a proposed bill to the Chairmen of the Senate and House Committees on Banking and Currency which would exempt from the security requirements of section 23A foreign banks controlled by Edge or Agreement corporations. A copy of this bill is enclosed for your information.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Wm. McC. Martin, Jr." with a stylized flourish at the end.

Wm. McC. Martin, Jr.

Enclosure

1417

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 13
4/27/65

WASHINGTON, D. C. 20551



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 27, 1965.

CONFIDENTIAL (FR)

Mr. William F. Treiber,
First Vice President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Treiber:

This refers to your letter of March 11, 1965, and the Board's discussion with you and Mr. Bilby on April 13.

In view of the circumstances, the Board authorizes your Bank to terminate or substantially shorten tenancies in the buildings recently acquired, or to effect other arrangements for that purpose, where this can be done advantageously.

When you and Mr. Bilby met with the Board on April 13, you indicated that you did not expect to conduct an aggressive campaign to terminate leases. Rather, you would like to proceed under a plan that would involve terminating all of the leases in a couple of years, when such termination could be effected advantageously. In authorizing your Bank to proceed, the Board has in mind that only the leases having a relatively long term to run or which, in the Bank's judgment, might be "bothersome" would come under this authorization, since obviously there would be no need for taking any action with respect to leases that will expire within the next couple of years.

The Board feels that a specific limitation in advance regarding the maximum cost of terminating a lease may not be practicable. However, it will appreciate your discussing in advance with the Board any proposed arrangement for the termination or shortening of a lease if the cost involved would be significantly larger than the \$25,000 limitation requested in your letter of March 11. It would also appreciate being informed of each expenditure made in the termination of a lease.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 14
4/27/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 27, 1965.

Mr. C. J. Scanlon, President,
Federal Reserve Bank of Chicago,
Chicago, Illinois. 60690

Dear Mr. Scanlon:

Reference is made to Vice President Ross' letter of March 29, 1965, recommending that the American City Bank and Trust Company, Milwaukee, Wisconsin, be permitted to maintain the same reserves against deposits as are required to be maintained by banks in nonreserve cities.

In view of the statements made at the time of the proposed combination of American State Bank and City Bank and Trust Company that approval of such proposal would permit the new bank to compete more effectively with the three larger banks in Milwaukee, the Board has decided to defer action on the request of the applicant for permission to carry reduced reserves until the extent of its competition with the other reserve city banks can be determined with more certainty. The Board will be happy to give further consideration to the request after the end of this year, and in that connection would appreciate receiving updated information that may have a bearing on the application, along with your Bank's recommendation and any other pertinent data, as set forth in Regulation D and in the Board's letter to the Federal Reserve Banks dated July 31, 1959.

Please forward the enclosed letter addressed to the subject bank, a copy of which is enclosed for your files.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

1419
Item No. 15
4/27/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 27, 1965.

Board of Directors,
American City Bank and Trust Company,
Milwaukee, Wisconsin.

Gentlemen:

This refers to the application from your bank, submitted through the Federal Reserve Bank of Chicago, for permission to maintain the same reserves against deposits as are required to be maintained by banks located outside of reserve cities.

The Board feels that it is too early to evaluate the extent of competition between your bank and the other reserve city banks in Milwaukee and, accordingly, has decided to defer action on the request for permission to carry reduced reserves.

The Board will be happy to give further consideration to your request after the end of this year, when the extent of such competition can be determined with more certainty. In that connection, the Board would then wish to receive information updating the application submitted with your letter of March 19, 1965, addressed to President Scanlon of the Federal Reserve Bank of Chicago, along with any other data that would have a bearing on your request.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

1420

TEXT OF REVISED GUIDELINE 13 OF GUIDELINES ISSUED
FOR USE OF COMMERCIAL BANKS UNDER VOLUNTARY
FOREIGN CREDIT RESTRAINT EFFORT

Item No. 16
4/27/65

(13) Loans to U.S. residents, and substitution of domestic credit
for credit from foreign sources.

There are a number of situations in which loans to domestic customers may be detrimental to the President's Balance of Payments Program. These include:

- (A) Loans to U.S. companies which will aid the borrower in making new foreign loans or investments inconsistent with the President's program. The Secretary of Commerce has requested large companies to improve their own balance of payments position during 1965 and to report certain loans to and investments in foreign affiliates and other foreign interests on Form 41-R2289. Domestic non-bank financial institutions have been asked to observe guidelines issued by the Federal Reserve System. Banks should avoid making new loans that would directly or indirectly enable borrowers to use funds abroad in a manner inconsistent with the Department of Commerce program or with the guidelines for non-bank financial institutions.
- (B) Loans to U.S. subsidiaries and branches of foreign companies which otherwise might have been made by the bank to the foreign parent or other foreign affiliate of the company, or which normally would have been obtained abroad. Subsidiaries and branches of foreign companies are being requested by the Department of Commerce to file a special quarterly report.
- (C) Loans to U.S. companies with foreign activities which take the place of credit normally obtained abroad. Even though such loans are made to domestic firms or those domiciled here, the impact on the U.S. balance of payments is the same as if the bank had made loans to foreigners in the first instance.

-2-

To the extent possible, banks should also avoid making loans to domestic borrowers which have an effect similar to that of the loans described in paragraphs (B) and (C).

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 17
4/27/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 27, 1965.

The Honorable,
The Comptroller of the Currency,
Treasury Department,
Washington, D. C. 20220.

Sir:

Reference is made to the Board's letters of August 14, 1964, and February 4, 1965, about the fiscal year 1965 printing order for Federal Reserve notes.

It is respectfully requested that you place a supplemental order with the Bureau of Engraving and Printing for printing 7,680,000 additional Federal Reserve notes (single units) of the 1963 Series in the \$1 denomination during the fiscal year ending June 30, 1965, for the Federal Reserve Banks of Minneapolis and San Francisco, as shown below:

	<u>Number of notes</u>	<u>Dollar amount</u>
Minneapolis	2,560,000	\$2,560,000
San Francisco	<u>5,120,000</u>	<u>5,120,000</u>
Total	<u>7,680,000</u>	<u>\$7,680,000</u>

Respectfully,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

1423

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

Item No. 18
4/27/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 27, 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 April 21, 1965, the Board approves
the designation of William J. Hocter as a special
assistant examiner for the Federal Reserve Bank of
Chicago.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

1421

TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 19
4/27/65

April 28, 1965.

SHEFFER - ATLANTA

Reurlet April 22, 1965, Board approves designation of Donald L. Charles as
special assistant examiner for Federal Reserve Bank of Atlanta.

(Signed) Karl E. Bakke

BAKKE