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Minutes for July 12, 1965

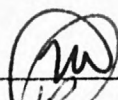

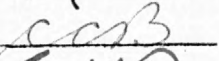
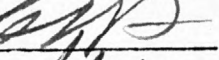

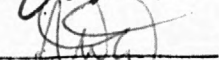
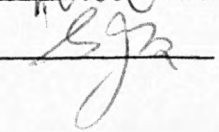
To: Members of the Board

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	<u></u>
Gov. Robertson	<u></u>
Gov. Balderston	<u></u>
Gov. Shepardson	<u></u>
Gov. Mitchell	<u></u>
Gov. Daane	<u></u>
Gov. Maisel	<u></u>

Minutes of the Board of Governors of the Federal Reserve System
on Monday, July 12, 1965. The Board met in the Board Room at 9:30 a.m.

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

Mr. Sherman, Secretary
Mr. Broida, Assistant Secretary
Mr. Noyes, Adviser to the Board
Mr. Fauver, Assistant to the Board
Mrs. Semia, Technical Assistant, Office of the
Secretary
Mr. Furth, Consultant

Messrs. Koch, Partee, Solomon, Williams, Axilrod,
Eckert, Ettin, Fisher, Gehman, Osborne, Trueblood,
and Wernick, and Mrs. Ulrey of the Division of
Research and Statistics

Messrs. Hersey, Sammons, Irvine, Wood, Dahl, Emery,
Gekker, Gemmill, Hayes, Maroni, and Mills, and
Mrs. Junz of the Division of International
Finance

Economic review. The Division of International Finance presented
a summary of international financial developments, with special emphasis
on balance of payments problems and on conditions in France, Italy, the
United Kingdom, Germany, and Japan, after which the Division of Research
and Statistics commented on domestic economic and credit trends.

All members of the staff then withdrew except Messrs. Sherman,
Fauver, and Sammons, and Mrs. Semia, and the following entered the room:

Mr. Cardon, Legislative Counsel
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations

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Mr. Shay, Assistant General Counsel
 Mr. Hooff, Assistant General Counsel
 Mr. Daniels, Assistant Director, Division of Bank Operations
 Mr. Goodman, Assistant Director, Division of Examinations
 Mr. Thompson, Assistant Director, Division of Examinations
 Mr. Young, Senior Attorney, Legal Division
 Messrs. Egertson and McClintock, Supervisory Review Examiners,
 Division of Examinations
 Mr. Sanford, Review Examiner, Division of Examinations

Ratification of actions. Actions taken by the available members of the Board at the meeting held on July 9, 1965, as recorded in the minutes of that meeting, were ratified by unanimous vote.

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 Mechanics and Farmers' Bank of Albany, Albany, New York, approving the establishment of a branch in the Town of Colonie.	1
Letter to the Federal Reserve Bank of San Francisco waiving the assessment of penalties incurred by Republic National Bank, San Diego, California, because of deficiencies in its required reserves.	2
Letter to Naumkeag Trust Company, Salem, Massachusetts, approving the declaration of a cash dividend.	3

Mr. Daniels then withdrew from the meeting.

Application of State-Planters Bank. On June 11, 1965, on the basis of a distributed memorandum from the Division of Examinations dated June 7, 1965, and other pertinent papers, the Board considered the application of State-Planters Bank of Commerce and Trusts, Richmond, Virginia, to merge

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with The Tri-County Bank, Mechanicsville, Virginia. Expressions of views by members of the Board indicated three votes for approval and three for denial of the application (Governor Balderston was not present at the meeting), and therefore the proposed merger failed of approval and could not be legally consummated. On June 17, 1965, the Board adopted a resolution offered by Governor Mitchell that the application be reconsidered at a time when all of the members of the Board could be present.

Mr. Egertson reviewed the principal circumstances of the application. State-Planters was an affiliate of United Virginia Bankshares, Incorporated, the largest bank holding company in the State. The proposal would increase the share of commercial bank deposits in the State held by affiliates of United Virginia Bankshares by approximately .1 per cent, and would increase State-Planters' share of deposits in the State by approximately .2 per cent and its share of deposits in the Richmond area by 1.1 per cent. However, the Division of Examinations felt that this increase in banking concentration was not so adverse as to offset favorable considerations under the banking factors. The merger would solve the capital problem and potential management succession problem of Tri-County Bank (although these problems could probably be solved other than through merger), and it was felt that the merger would contribute to the industrial growth of Hanover County. The Division of Examinations recommended approval.

Mr. Solomon then commented that when this proposed merger had been first considered he had not regarded it as presenting a very close decision,

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and after reviewing the possibly adverse features he still did not see that it was greatly different from others the Board had approved, from the point of view of concentration of banking resources either in the State or in the local area concerned. It was true that the Supreme Court decision in the Philadelphia National Bank case in June 1963 had cited the principle that where a large degree of concentration already existed, even a small increase was to be viewed cautiously; however, that case had involved two large banks. The Department of Justice had not expressed an adverse view as to the present proposal. There was to be considered the point advanced by directors of Tri-County Bank who had voted against the merger proposal, to the effect that the great majority of people now being served by the bank liked dealing with a small institution. However, that argument could be raised in any case in which a relatively large bank wished to acquire a small bank in an outlying area. If such an argument were given substantial weight, it would point to the denial of almost every such application, but the Board had not given it such weight. Nor was there anything to support the claim that State-Planters would be less interested in the local interests of Mechanicsville than was Tri-County Bank. As a matter of fact, Tri-County Bank had somewhat the characteristics of a savings and loan association, with a heavy proportion of real estate loans and only about 9 per cent of its portfolio in commercial and industrial loans. It would seem that with the trend toward greater industrialization in Hanover County, State-Planters

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might cater more markedly to local businesses, and there would not be the shift of orientation away from local interests that opponents of the merger feared. Although there was a question as to how much weight the opposition should be given, it seemed to Mr. Solomon that if great significance were attributed to it the Board in a sense would be delegating its responsibility according to the ability of a group to round up dissident voices. Actually, the opponents represented only one family with a small additional percentage of other stockholders. Also, the State bank supervisor had made a strong recommendation for approval.

Governor Maisel suggested that, since three applications on today's agenda involved banks in Virginia, the staff explain Virginia laws with regard to de novo branching, holding companies, and mergers. Responses indicated that, in effect, the laws of the State facilitated branching by merger and acquisitions by holding companies, whether of banks organized by the holding company or of independent banks. However, the law strictly limited de novo branching, and in the case before the Board, de novo branching was not permissible. There ensued further discussion of avenues open to Virginia banks for expansion.

Governor Daane asked if there appeared to be any chance that Tri-County Bank could be energized other than through merger, in response to which the staff referred to the view of the Federal Reserve Bank of Richmond that in the absence of merger Tri-County would always be a country bank.

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The members of the Board then stated their positions, beginning with Governor Robertson, who said he would disapprove the application for the reasons he had given at the meeting on June 11. However, he felt constrained to state his disagreement with the idea that if the Board gave weight to the protests of the opponents it would be delegating its responsibility. In view of the premium being offered for the stock of Tri-County Bank, plus the financial inducements being given to officers of the bank who would continue with it after its take-over by State-Planters, it was difficult to believe that any stockholders would oppose the plan; the fact that nevertheless there had been such opposition was therefore significant. He might view the matter differently if there appeared to be any public benefit to be derived from the merger, but he could see none. The needs of the community were being taken care of. The holding company could establish and then merge a new bank in Mechanicsville, and therefore it had an avenue open to enter the area without eliminating a bank that was providing local service of sufficient value that some people who moved away retained their connection with it. Added to these considerations the fact that there would be an increase in concentration in bank holding company systems in Virginia, it seemed to him that there was little to be said for approval and much to be said for disapproval.

Governor Shepardson stated that he would approve on the basis of the Division's recommendation.

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Governor Mitchell said that he thought the case was close, but he would disapprove it on the grounds that he did not think the merger was needed for banking reasons. State-Planters was the second largest bank in the Richmond metropolitan area, and the merger would increase its size. He believed that it was necessary for the Board to be alert to continued growth of institutions that had already become dominant in metropolitan areas. Rather than increased dominance in such an area, he believed that State-wide branch banking constituted more healthy growth. There was no lack of banking alternatives in Richmond, but he saw in this case an opportunity to retain a local bank for those people who preferred a home-owned institution. He would deny the application.

Governor Daane commented that he did not regard the proposal as being of major moment to the financial structure of the country, the Richmond metropolitan area, or of State-Planters Bank. However, it seemed clear to him that the net result of the merger would be to revitalize an institution that was failing to meet community needs into an aggressive one that would provide competition. It was in an area that was growing. He did not agree with the idea that those who needed an aggressive bank should have to go to the center of town to find it; he thought having one in Mechanicsville would serve a useful purpose. He subscribed to the view of the Federal Deposit Insurance Corporation that competition should be enhanced in Tri-County's service

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area. It was noteworthy that the Comptroller of the Currency and the Department of Justice likewise foresaw no adverse effect on competition. He attached no significance whatever to the fact that a few of the people who had moved away had kept their accounts at Tri-County. It did not seem to him that that constituted evidence of potential competition. He would approve the application.

Governor Maisel stated that he would vote against the proposal. He did not agree with the Division's point of view that this growth by merger could be permitted since it would increase concentration by only a small percentage. He thought it was necessary to look to the future. Since this was a growing area, a backward look five or ten years from now might disclose that the Board had made a mistake in that it had allowed State-Planters to increase its dominance in the area by the merger route. He believed that such an increase in dominance was what the Board was instructed to prevent, and that this was the time to stop the trend.

Governor Balderston said that if one of the banks involved in this proposal were not part of a holding company system, he would conclude that the loss of competition between the two institutions was negligible and that the convenience and needs of the community might be served somewhat better by the larger institution, especially if the industrial expansion taking place in Hanover County continued. However, he believed that the case could not be considered without

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reference to the fact that State-Planters was an affiliate of United Virginia Bankshares, Incorporated, a registered bank holding company and the largest banking organization in the State. As the Antitrust Division of the Department of Justice had pointed out, the four bank holding companies operating in Virginia now controlled approximately 25.6 per cent of the total deposits of all banks in the State; if this merger were approved, it would be increased to 25.9 per cent. As the Antitrust Division conceded, the increase was not substantial even though the cumulative effect of absorbing banks by bank holding companies was a source of concern to the Justice Department.

Governor Balderston would share that concern if the bank holding companies as a group were to dominate banking throughout the State. However, the present percentage of control was far below such dominance. Moreover, if this matter had come before the Board as a holding company case rather than a merger proposal, he would be reminding the Board that the Bank Holding Company Act sought to control such companies in the public interest but made no reference to their size, per se. Consequently, he concluded that the fact that State-Planters was an affiliate of the largest holding company in the State was not relevant to the decision that faced the Board.

In summary, it was Governor Balderston's conclusion that a balance must be struck between some sacrifice of the freedom to depositors to deal with a bank of small size, even though unaggressive,

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and the aggressive service of a larger institution that many residents would prefer to have readily available. He referred to the accommodations that such an institution could provide to the commercial and industrial firms of an expanding area. If Hanover County were not experiencing the changes that accompanied population growth and urbanization, he would think the public interest might be well served by leaving Tri-County and its branches intact. However, in view of the actual situation, he believed that greater public service would be rendered by permitting State-Planters to take over Tri-County. Consequently, he would vote to approve.

Chairman Martin indicated that he also would vote to approve.

The application of State-Planters Bank was thereupon approved, Governors Robertson, Mitchell, and Maisel dissenting. It was understood that the Legal Division would draft for the Board's consideration an order and statement reflecting this decision, and that a dissenting statement or statements also would be prepared.

Application of Bank of Virginia. There had been distributed a memorandum dated June 22, 1965, from the Division of Examinations, and other pertinent papers, regarding the application of The Bank of Virginia, Richmond, Virginia, to merge with Farmers Bank of Boydton, Boydton, Virginia. The Division recommended approval.

At the Board's request Mr. Egertson described the situation underlying the application, after which the members of the Board stated their views.

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Governor Robertson stated that he would disapprove, although he regarded the basis for disapproval as weaker than in the State-Planters application, just considered, because of the distances involved. In the present case, in his opinion, the case made for an increased range of banking services in the community and the need therefor was not sufficient to outweigh the fact that this was another instance in which a holding company was attempting to gobble up small banks at various points in the State. The substantial premium being offered signified to him that the holding company (Virginia Commonwealth Corporation) wanted to buy rather than that the shareholders of the small bank wanted to sell. In addition, an attractive retirement arrangement was being offered to the president of the Boydton bank. It seemed to Governor Robertson that although in this case there was a slight possibility of public advantage, it was not sufficient to offset increased concentration in bank holding company systems in Virginia.

The other members of the Board indicated that they would vote to approve.

The application of The Bank of Virginia was thereupon approved, Governor Robertson dissenting. It was understood that an order and statement reflecting this decision would be drafted for the Board's consideration, and that a dissenting statement by Governor Robertson also would be prepared.

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Secretary's Note: As indicated in the minutes of the meeting on July 14, 1965, Governor Robertson stated that on further consideration he would vote to approve the application of The Bank of Virginia.

Application of Virginia Commonwealth Corporation. There had been distributed a memorandum dated May 28, 1965, from the Division of Examinations, with other papers regarding the application of Virginia Commonwealth Corporation, Richmond, Virginia, to acquire 80 per cent or more of the voting shares of First National Bank of Vienna, Vienna, Virginia.

Mr. Thompson commented on the various circumstances weighed by the Division in reaching its recommendation of approval.

Governor Robertson stated that he would approve, solely on the basis that holding company control of the small bank might alleviate the problems that should have been solved by supervision.

Other members of the Board having indicated that they would vote favorably, the application was approved unanimously. It was understood that the Legal Division would draft for the Board's consideration an order and statement reflecting this decision.

Messrs. Thompson, Young, Egertson, McClintock, and Sanford then withdrew from the meeting.

Conversion of certificates of deposit into cash (Item No. 4).

There had been distributed a memorandum dated July 8, 1965, from the Legal Division regarding a proposed amendment, published in the Federal

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Register, to a regulation of the Agricultural Marketing Service of the Department of Agriculture. The amendment would authorize market agencies engaged in selling or buying livestock on a commission or agency basis to "convert a reasonable portion" of certain custodial funds, now carried as demand deposits, to certificates of deposit payable to the agency in its fiduciary capacity as trustee of the custodial funds. It was explained that because proceeds checks issued to consignors often were not promptly negotiated and presented for payment, a sizable amount of float, sometimes as much as \$1 million, was maintained in the custodial accounts. The published notice indicated that "certificates of deposit could be converted to cash when needed to honor proceeds checks presented for payment by consignors." The proposed procedure could not be followed now because the present regulation prohibited market agencies from using these funds for purposes of their own "through recourse to the so-called 'float' in the bank account."

The Washington office of the American Bankers Association had suggested that the proposed practice might be viewed as payment of interest on a demand deposit, prohibited by law and regulations. For reasons set out in the memorandum, the Legal Division did not believe that such a problem was involved, but it did believe that there might be a problem in converting the certificates of deposit into cash if needed. It might be assumed that the certificate would have a definite maturity or provide for payment upon a specified notice of not less

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than 30 days, but in either case, the certificate could not be automatically convertible to cash. There were three ways in which cash from a certificate might be realized rather quickly, namely, payment in an emergency with loss of interest (probably not permissible in this instance), a loan against the certificate at interest of two per cent greater than the interest paid on the certificate, and sale to a third party. Since those proposing the amendment might not be aware of the problem of converting the certificates into cash, it was recommended that the Department of Agriculture be informed of it. A draft of letter for that purpose was attached to the memorandum.

Discussion included comments that although there was a secondary market for certificates of deposit, in the arrangements here contemplated the market agencies probably would not be able to avail themselves of that market because the certificates would be in relatively small amounts and issued by relatively small banks. It was noted that it might be possible for the agency to make arrangements with the bank to borrow needed cash on security other than the certificate. There was general agreement that the draft letter be revised to delete recitation of the possible means of converting certificates into cash, and that it merely correct the possible impression that there was no restriction on payment of certificates before maturity.

Unanimous approval was given to a letter to the Department of Agriculture in the form attached as Item No. 4.

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Mr. Hooff then withdrew from the meeting.

Request by the Comptroller of the Currency (Item No. 5). There had been distributed a draft of reply to a letter of June 9, 1965, from the Comptroller of the Currency requesting, on a continuing basis, full reports of examination of all Edge Act and agreement corporation subsidiaries of national banks and of State member banks. The draft reply would point out that the reports of such subsidiaries of national banks had been continuously available to the Comptroller on an individual loan basis upon request; that it was assumed that his present request indicated that he now wished to receive copies regularly for retention in his files; that copies would be furnished to him for that purpose; and that copies of the reports of Edge Act and agreement corporation subsidiaries of State member banks would continue to be available on a loan basis.

Discussion brought out that Comptroller of the Currency Saxon had made only one request, 18 months ago, for an examination report of a national bank subsidiary, and it was agreed that the reply should make reference to that fact. There was also agreement upon several other suggested revisions of the draft letter.

The letter was thereupon approved unanimously in the form attached as Item No. 5.

Advances to national banks (Item No. 6). In a letter of June 1, 1965, the Comptroller of the Currency had requested information on a continuing basis as to the terms and purposes of loans and advances

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extended to national banks by Federal Reserve Banks, reasons for rejections or reductions of requested amounts, and the specific conditions, if any, imposed by the lending Federal Reserve Bank. At the meeting on June 7, 1965, the Board agreed to request from the Federal Reserve Bank Presidents certain information needed for the preparation of a reply and also to discuss the Comptroller's letter with the Federal Reserve Bank discount officers, who were at that time meeting in the Board's building. There had now been distributed a draft of reply to the Comptroller.

Various changes in the draft were agreed upon during discussion, after which unanimous approval was given to a letter in the form attached as Item No. 6.

Exemption from antitrust laws under balance of payments program.

There had been distributed a draft of statement to be made by Chairman Martin in testifying before the Antitrust Subcommittee of the Senate Committee on the Judiciary on July 15, 1965, in regard to H. R. 5280, which would provide for an exemption from the antitrust laws for certain actions taken by bankers and financial institutions in pursuance of the President's program relating to the balance of payments problem of the United States.

After a discussion during which members of the Board offered suggestions regarding various points in the draft, it was understood that the statement would be revised in the light of the views expressed and would be presented in a form satisfactory to the Chairman.

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The meeting then adjourned.

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

Memorandum from the Director of the Division of Examinations dated July 7, 1965, recommending that a new position at Grade FR-14 or 15 be created in that Division, to be filled by a person with extensive experience in the examination of electronic data processing in banks, and requesting approval of any resulting overexpenditure in the 1965 budget of the Division. It was understood that the position would be established in the unit presently designated as "Foreign Banking Activities."

Memorandum from Stanley J. Sigel, Assistant to the Director, Division of Research and Statistics, dated July 9, 1965, requesting authorization to attend a program organized by the Norwegian Central Statistical Office and to visit the National Bank of Denmark in Copenhagen, the Bank of Norway in Oslo, and the Bank of Sweden in Stockholm during his forthcoming trip to Norway to attend the 1965 meeting of the International Association for Research in Income and Wealth that was approved by the Board on April 15, 1965. Mr. Sigel's travel authorization would cover the period August 26 to September 17, 1965.

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

Appointments

Robert Frederick Grieb as Statistical Clerk, Division of Research and Statistics, with basic annual salary at the rate of \$4,140, effective the date of entrance upon duty.

Joel R. Sarfati as Economist, Division of Research and Statistics, with basic annual salary at the rate of \$7,220, effective the date of entrance upon duty.

Dorothy M. Manley as Substitute Maid, Division of Personnel Administration, with salary at the rate of \$1.68 per hour when actually employed.

Salary increases

Edward W. Healey, Assistant Federal Reserve Examiner, Division of Examinations, from \$7,050 to \$7,465 per annum, effective July 18, 1965.

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Salary increases (continued)

Henry Edmonds, Window Washer, Division of Administrative Services, from \$4,410 to \$4,514 per annum, with a change in title to Grounds Maintenance Worker, effective July 18, 1965.

Transfers

Ferol Ann Faust, from the position of Stenographer in the Division of Personnel Administration to the position of Stenographer in the Division of Bank Operations, with no change in basic annual salary at the rate of \$4,005, effective July 18, 1965.

Raymond L. M. Holmes, from the position of Digital Computer Programmer in the Division of Data Processing to the position of Digital Computer Programmer in the Division of Research and Statistics, with no change in basic annual salary at the rate of \$5,495, effective July 18, 1965.

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

Salary increases

Hampton L. Logan, Laborer, Division of Administrative Services, from \$3,500 to \$3,661 per annum, with a change in title to Window Washer, effective July 18, 1965.

Ramona K. Harlow-Rao, Key Punch Operator, Division of Data Processing, from \$4,410 to \$4,780 per annum, with a change in title to Key Punch Supervisor, effective August 15, 1965.


Secretary

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

Item No. 1
7/12/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 12, 1965.

Board of Directors,
Mechanics and Farmers' Bank of Albany,
Albany, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Mechanics and Farmers' Bank of Albany, Albany, New York, of a branch on the south side of Wolf Road approximately 584 feet west of the intersection of Wolf Road and Sand Creek Road, Town of Colonie, Albany 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.)

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

Item No. 2
7/12/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 12, 1965.

Mr. Eliot J. Swan, President,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Swan:

This refers to your letter of June 23, 1965, regarding the penalties totaling \$254.88 incurred by the Republic National Bank, San Diego, California, on deficiencies in its required reserves for the biweekly computation periods ended October 14, November 11 and 25, 1964, and February 17, March 3, and April 14, 1965.

It is noted that (1) these deficiencies were discovered in the semiannual comparison of Call Reports with Reserve Condition Reports; (2) from the time the bank opened for business in August 1964 through April 28, 1965, it had been including its reserve account balance in Due from Other Banks and had been reporting Government Deposits in both Other Demand Deposits and United States Government Demand Deposits; and (3) the penalty of \$18.98 for the period ended October 14, 1964, can be waived by your Bank under the Board's instructions (S-1123, F.R.L.S. #6120).

In the circumstances, the Board authorizes your Bank to waive the assessment of the remaining penalties of \$235.90 for the reserve computation periods ended November 11 and 25, 1964, and February 17, March 3, and April 14, 1965.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3
7/12/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 12, 1965.

Board of Directors,
Naumkeag Trust Company,
Salem, Massachusetts.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of paragraph 6 of Section 9 of the Federal Reserve Act and Section 5199(b) of United States Revised Statutes, the declaration of a \$45,000 cash dividend on common stock to be paid on August 1, 1965, by Naumkeag Trust Company, Salem, Massachusetts. This letter does not authorize any future declaration of dividends that would require the Board's approval under the foregoing statutes.

Very truly yours, /

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4
7/12/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 12, 1965.



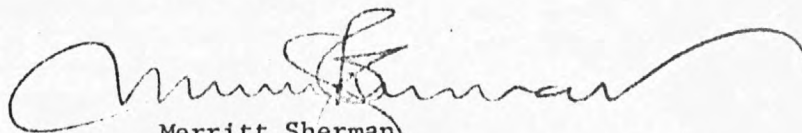
Hearing Clerk,
Department of Agriculture,
Washington, D. C.

Dear Sir:

This letter is in reference to the proposed amendments to 9 CFR Part 201, appearing in the Federal Register on June 12, 1965. It is noted that § 201.42 would be amended so as to authorize market agencies, engaged in selling or buying livestock on a commission or agency basis, to convert a reasonable portion of certain custodial funds, deposited in banks, to certificates of deposit payable to such agency in its fiduciary capacity as trustee of the custodial funds. It is stated that these certificates of deposit could be converted to cash when needed to honor proceeds checks presented for payment by consignors.

It is assumed that the purpose of this amendment is to permit such an agency to transfer a portion of these custodial funds from a demand deposit to a time deposit upon which interest may be paid. Your attention is called to regulations issued by the Board of Governors of the Federal Reserve System and by the Federal Deposit Insurance Corporation that prohibit the payment of time certificates before maturity except in emergency or hardship circumstances; and the provision for such payments would not appear to be applicable in this case. While there are means by which the holder of a time certificate might obtain cash for such certificate, the explanation of this amendment as contained in the Federal Register, might lead the parties concerned into believing that the time certificate may be paid by the bank before maturity and the cash represented thereby immediately applied to the payment of outstanding checks.

Very truly yours,


Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



OFFICE OF THE CHAIRMAN

July 12, 1965.

Dear Jim:

This refers to your letter of June 9, 1965, stating that you "are in need, on a continuing basis, of the full Reports of Examination which the Board makes of all Edge Act and Agreement subsidiaries of National Banks, including the confidential sections." These reports, including the confidential sections, have been continuously available to you on an individual loan basis upon request in the same manner as reports of examination of State member banks; but since our records show that, except for one such report which was supplied to you about 18 months ago, you have not requested that any of them be loaned to you, it is assumed that you now wish to receive copies regularly for retention in your files. Accordingly, an extra copy of each report of examination of an Edge Act or Agreement subsidiary of a National Bank will be prepared hereafter and will be supplied to your Office. Reports on earlier examinations will continue to be available as heretofore.

Since operations of Edge Act and Agreement subsidiaries of State member banks are not usually relevant to the activities of National Banks, we assume that your purpose will be served by reports of examination of these subsidiaries continuing to be available to you on an individual loan basis in the same manner that they and reports of examination of State member banks have been available in the past.

Sincerely yours,

(Signed) Bill

Wm. McC. Martin, Jr.

The Honorable James J. Saxon,
Comptroller of the Currency,
Main Treasury Building,
Washington, D. C. 20220.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
7/12/65

OFFICE OF THE CHAIRMAN

July 12, 1965.

The Honorable James J. Saxon,
The Comptroller of the Currency,
Treasury Department,
Washington, D. C.

Dear Jim:

This refers to your letter of June 1, 1965, regarding borrowing by national banks from Federal Reserve Banks.

All loans and advances by Federal Reserve Banks are governed by, and within the terms of, the Board's Regulation A, "Advances and Discounts by Federal Reserve Banks," and the statutes printed in the Appendix to the regulation. A copy is attached for convenient reference. As stated in section 201.0(d) of the regulation:

Federal Reserve credit is generally extended on a short-term basis to a member bank in order to enable it to adjust its asset position when necessary because of developments such as a sudden withdrawal of deposits or seasonal requirements for credit beyond those which can reasonably be met by use of the bank's own resources. Federal Reserve credit is also available for longer periods when necessary in order to assist member banks in meeting unusual situations, such as may result from national, regional, or local difficulties or from exceptional circumstances involving only particular member banks. Under ordinary conditions, the continuous use of Federal Reserve credit by a member bank over a considerable period of time is not regarded as appropriate.

Since most Federal Reserve credit is on a short-term basis and is for the purpose of adjusting the borrower's asset position, it would appear to be of no more supervisory interest than would similar credit obtained by a bank from other sources. For this reason,

and since all information regarding this or any other borrowing by a national bank is available to your examiner in the course of his examination, it would seem to be redundant for the System to supply information to your office regarding such usual, short-term borrowing by a national bank.

On the other hand, when a national bank borrows from the Reserve Bank in circumstances reflecting possible difficulties of the bank--or indicates a likelihood of such borrowing--the situation is entirely different. In such cases, the Federal Reserve Bank promptly and fully informs the Regional Comptroller of the Currency; it counsels with him regarding the situation; and it keeps him fully apprised of developments. This would include not only changes in borrowings from the Reserve Bank, but also any other pertinent information coming to the knowledge of the Reserve Bank, such as deficiencies in the national bank's reserve account at the Reserve Bank. In fact, any information that a Reserve Bank receives significantly relating to the safety or soundness of a national bank is promptly communicated to the Regional Comptroller of the Currency regardless of whether or not the national bank is borrowing or shows likelihood of borrowing from the Reserve Bank. The Reserve Banks endeavor to do this on a close, informal day-to-day and even hour-to-hour basis, which we believe to be highly desirable.

Such close, informal cooperation has been more difficult since the field organization of your office was changed in May 1962, from Districts which were the same as those of the Federal Reserve System to Regions considerably different. Several of the Reserve Banks now find their Districts divided among a number of Regions, with some of the Regional Comptrollers of the Currency located in cities distant from the Reserve Bank. The Reserve Banks have also become aware that in the past few years Regional Comptrollers have apparently felt, mistakenly or not, that they were under constraints from Washington, not previously applicable, as to information they could communicate to the Reserve Banks. However, the Board continues strongly of the view that it is preferable--in fact essential--that information regarding problems of individual banks be exchanged promptly at the field level instead of having to be funnelled through Washington offices.

If you will let us know any respects in which the present practices of the Reserve Banks as outlined above fail to meet the needs of your Office, the Board will be pleased to give the matter most careful further consideration.

In view of your offer to be of assistance in this area, I will indicate some further information which the Board would appreciate your

The Honorable James J. Saxon

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having supplied to the Reserve Banks to aid the System in administering the Federal Reserve discount function most effectively in the public interest. Such information is related to risks the Reserve Bank may be called upon to incur as well as to the directive in the Federal Reserve Act printed in the Appendix to Regulation A, that:

Each Federal reserve bank shall keep itself informed of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for the speculative carrying of or trading in securities, real estate, or commodities, or for any other purpose inconsistent with the maintenance of sound credit conditions; and, in determining whether to grant or refuse advances, rediscounts or other credit accommodations, the Federal reserve bank shall give consideration to such information.

While the System could obtain such information directly from national banks through its power to examine national banks and require reports of them, it can be less burdensome on the national banks, and also seems otherwise preferable, to utilize other sources. Some of this information is contained in examination reports, and in this respect, it would be appreciated if you would authorize all Regional Comptrollers to furnish to any Reserve Bank any copies it may request of examinations of national banks given a composite rating of 3 or 4. It will also be appreciated if you will have each Regional Comptroller supply to the Reserve Bank in examination reports, or otherwise, as promptly as appropriate, (1) an analysis of all borrowings and similar liabilities (including repurchase agreements and Federal funds purchased) of the national bank during the year, such as was formerly included on page 15 of the report of examination of national banks, and (2) any information coming to him significantly relating to a national bank's safety or soundness, including (a) meetings with boards of directors to discuss the subject, (b) substantial defalcations or other possible violations of law significantly affecting safety or soundness, and (c) changes in ownership, management or control significantly related to safety or soundness, including such changes in authority of top executives without change in title. While some of this information may be in examination reports, in some cases it does not appear in the report or may need to be communicated to the Reserve Bank more rapidly than an examination report would be completed. It would also be appreciated if condition reports could include full information on repurchase agreements and similar liabilities.

Sincerely yours,

(Signed) Bill

Wm. McC. Martin, Jr.

Enclosure.