

Minutes for August 19, 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

Gov. Maisel

RM
R
CCB
SSP
MM
DD
SM

Minutes of the Board of Governors of the Federal Reserve System on Thursday, August 19, 1965. The Board met in the Board Room at 10:00 a.m.

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

Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Leavitt, Assistant Director, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. Heyde, Attorney, Legal Division
Mr. McClintock, Supervisory Review Examiner, Division of Examinations
Mr. Hart, Assistant to the Director, Division of Personnel Administration

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 the Federal Deposit Insurance Corporation regarding the application of Birmingham-Bloomfield Bank, Birmingham, Michigan, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System. | 1 |
| Letter to the Federal Reserve Bank of Dallas regarding an apparent violation of section 3(a) of the Bank Holding Company Act of 1956 by Briscoe Ranch, Inc., Uvalde, Texas. | 2 |

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Item No.

Letter to the Federal Reserve Bank of New York interposing no objection to proposed travel by Peter Fousek, Assistant Vice President, involving visits to the central banks in Australia and New Zealand, and perhaps one or two other countries, in connection with an assignment to lecture at the Sixth SEANZA Central Banking Course to be held in Wellington, New Zealand, this fall.

3

Letter to the Federal Reserve Bank of New York approving the appointment of James H. Oltman as Assistant Federal Reserve Agent.

4

Letter to the Federal Reserve Bank of New York approving the appointment of Edward C. Young as Federal Reserve Agent's Representative at the Buffalo Branch.

5

Letter to the Federal Reserve Bank of New York approving the further retention of Clifton R. Gordon beyond normal retirement age for duty at the Bank's relocation center.

6

Report on competitive factors (Worcester-Webster, Massachusetts).

A report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed consolidation of First National Bank of Webster, Webster, Massachusetts, into Guaranty Bank & Trust Company, Worcester, Massachusetts, was approved unanimously for transmittal to the Corporation. The conclusion read as follows:

The proposed consolidation of First National Bank of Webster into Guaranty Bank & Trust Company, Worcester, would eliminate competition between the two banks and the potential for future competition. Entry of Guaranty into Webster would expose the remaining commercial bank in Webster to the direct competitive capabilities of a substantially larger commercial bank.

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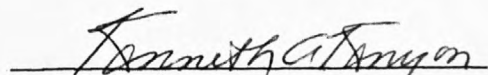
Leave of absence for Mr. Schiff. There had been distributed a draft of letter to the Federal Reserve Bank of New York that would indicate that the Board interposed no objection to an extension for one year of the leave of absence granted to Frank W. Schiff, Assistant Vice President, so that he might continue to serve on the staff of the Council of Economic Advisers.

After discussion there was general agreement with a suggestion by Governor Daane that the matter be deferred pending the obtaining of certain additional information.

Southern Arizona Bank and Trust Company. Mr. Solomon reported for the Board's information the possibility that Southern Arizona Bank and Trust Company, Tucson, Arizona, might be considering withdrawal from membership in the Federal Reserve System, an inquiry having been addressed by an economist for the bank to a Vice President of the Federal Reserve Bank of Dallas (who had referred a copy to the Board's staff with a request for comments or suggestions on a proposed reply) as to the relative advantages and disadvantages of status as a national bank, State member bank, or insured nonmember bank. Mr. Solomon noted among other things that Southern Arizona Bank and Trust was a subsidiary of Western Bancorporation, the largest bank holding company in the country.

After discussion, it was understood that copies of the economist's letter and proposed reply would be distributed to the Board members prior to further consideration of the subject.

The meeting then adjourned.


Assistant Secretary

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

Item No. 1
8/19/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 19, 1965.

Honorable K. A. Randall, Chairman,
Federal Deposit Insurance Corporation,
Washington, D. C. 20429

Dear Mr. Randall:

Reference is made to your letter of July 29, 1965, concerning the application of Birmingham-Bloomfield Bank, Birmingham, Michigan, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

There have been no corrective programs urged upon the bank, or agreed to by it, which have not been fully consummated, and there are no such programs that the Board would advise be incorporated as conditions of admitting the bank to membership in the Corporation as a nonmember of the Federal Reserve System.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 2
8/19/65

WASHINGTON, D. C. 20551



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 20, 1965.

AIR MAIL

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

Dear Mr. Sullivan:

This acknowledges your letter of May 5, 1965, addressed to Mr. Frederic Solomon, Director of the Board's Division of Examinations, in which you report on an apparent violation of section 3(a) of the Bank Holding Company Act of 1956 by Briscoe Ranch, Inc., Uvalde, Texas. You request a determination by the Board as to any action that may be considered appropriate under the circumstances presented.

The relevant facts concerning Briscoe Ranch's apparent violation appear to be the following: Briscoe Ranch was organized December 31, 1961, from the assets of the estate of Dolph Briscoe, Sr., who died in 1956. At April 15, 1965, the principal stockholder of Ranch was Dolph Briscoe, Jr., owner of approximately 48 per cent of the stock of Briscoe Ranch. At the time Briscoe Ranch was organized, a portion of its assets consisted of 13,000 shares of the stock of First State Bank, Uvalde, Texas ("First State"). Sixty-five hundred additional shares of First State were obtained on October 9, 1964, by way of a stock dividend. On December 31, 1964, following sale by Briscoe Ranch of 250 shares of First State, Briscoe Ranch owned 19,250 shares of First State (64 per cent of the bank's outstanding 30,000 shares). At the same date Briscoe Ranch held stock in six other banks. In two of these banks its ownership represented slightly more than 10 per cent of the outstanding shares; its holdings in the remaining four banks represented 5 per cent or less of the outstanding stock. On March 8, 1965, Briscoe Ranch acquired 543 shares of the 1,000 shares outstanding of Security State Bank, Pearsall, Texas ("Security State"), representing approximately 54 per cent of that bank's voting shares. Subsequent to its acquisition of Security State stock, your Bank's investigation disclosed that Briscoe

Mr. Thomas R. Sullivan

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Ranch's only other bank stock acquisition was that of a fractional share in First City National Bank, Houston, Texas, acquired on April 6, 1965, thereby giving Briscoe Ranch ownership of .02 per cent of the stock of this bank. Briscoe Ranch's nonbanking holdings as of December 31, 1964, consisted of commercial real estate, ranch properties, livestock, and shares in approximately 25 corporations. Briscoe Ranch's only nonbanking activity subsequent to its purchase of the Security State stock was its acquisition of 244 shares in American Enka Corporation, by way of a stock split. Following such acquisition Briscoe Ranch remained a less than one per cent stockholder of American Enka.

On April 13, 1965, following advice by your Bank by letter of April 8, that Briscoe Ranch had apparently become a bank holding company in violation of the Act through its March 8 acquisition of the stock of Security State, Briscoe Ranch sold all of its stock in Security State to Dolph Briscoe, Jr., president and principal stockholder of Briscoe Ranch, as an individual.

Section 3(a) of the Act provides:

"It shall be unlawful except with the prior approval of the Board (1) for any action to be taken which results in a company becoming a bank holding company under section 2(a) of this Act;"

Since Briscoe Ranch did not obtain the prior approval of the Board for its acquisition of Security State stock, it seems clear that this was a violation of section 3(a) of the Act.

Briscoe Ranch's acquisition of a fractional share of stock of First City National Bank, although acquired after Briscoe Ranch became a bank holding company, did not require the prior approval of the Board since the acquisition did not result in Briscoe Ranch owning or controlling as much as five per cent of the stock of First City National Bank (section 3(a)(2) of the Act).

Your Bank's investigation revealed that prior to Briscoe Ranch's acquisition of the Security State stock, Briscoe Ranch had borrowed \$150,000 from Security State. Section 6(a)(4) of the Act provides:

". . . [I]t shall be unlawful for a bank -
to make any loan to a bank holding company of
which it is a subsidiary"

Since this loan was made prior to Briscoe Ranch's acquisition of the Security State stock, and thus, before Briscoe Ranch became a bank holding company, Briscoe Ranch was not in violation of section 6(a)(4).

Also subsequent to its becoming a bank holding company, Briscoe Ranch acquired 224 shares of American Enka Corporation through a stock split. Section 4(a)(1) of the Act prohibits, in effect, a bank holding company from acquiring ownership of any voting shares in a nonbank company, but section 4(c)(5) exempts from such prohibition

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

Since Briscoe Ranch does not hold more than five per cent of the stock of American Enka and the stock it does hold amounts to less than five per cent of its total assets, Briscoe Ranch's acquisition of this stock fell within the exemption cited.

On the basis of the foregoing analysis, it appears that Briscoe Ranch's only violation of the Act was its acquisition of the Security State stock whereby it became a bank holding company without the prior approval of the Board. Immediately following your advice as to this apparent violation of the Act, Briscoe Ranch divested itself of its interest in Security State through sale of the stock to its president as an individual. Briscoe Ranch was therefore a bank holding company for only the period dating from March 8, 1965, to April 13, 1965.

The Board has noted your Bank's conclusion that the violation discussed herein was unintentional, due to an apparent lack of awareness of the relevant provisions of the Bank Holding Company Act. The Act, in section 8, provides for penalties only in cases where companies or individuals are shown to have participated willfully in a violation of the Act. Since no evidence has been found which would support a finding of willful violation by Briscoe Ranch or its officers, the Board believes that no useful public purpose would be served in reporting the violation to the Department of Justice.

It will be appreciated if you will transmit to Briscoe Ranch the substance of the Board's views as herein set forth.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 3
8/19/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 19, 1965.

Mr. Thomas M. Timlen, Jr.,
Secretary,
Federal Reserve Bank of New York,
New York, New York 10045:

Dear Mr. Timlen:

The Board of Governors interposes no objection to the travel arrangements for Mr. Peter Fousek outlined in your letter dated August 11, 1965.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4
8/19/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 19, 1965.

Mr. Philip D. Reed,
Federal Reserve Agent,
Federal Reserve Bank of New York,
New York, New York. 10045.

Dear Mr. Reed:

In accordance with the request contained in your letter of August 6, 1965, the Board of Governors approves the appointment of Mr. James H. Oltman as Assistant Federal Reserve Agent at the Federal Reserve Bank of New York to succeed Mr. John P. Ringen who will retire.

This approval is given with the understanding that Mr. Oltman will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that office, his responsibility will be to the Board of Governors.

When not engaged in the performance of his duties as Assistant Federal Reserve Agent Mr. Oltman, may, with the approval of the Federal Reserve Agent and the President of the Bank, perform such work for the Bank as will not be inconsistent with his duties as Assistant Federal Reserve Agent.

It will be appreciated if Mr. Oltman is fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

It is noted from your letter that Mr. Oltman's appointment is to become effective September 1, 1965, following approval by the Board of Governors. Please have Mr. Oltman execute the usual Oath of Office which will then be forwarded to the Board.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 5
8/19/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 19, 1965.

Mr. Philip D. Reed,
Federal Reserve Agent,
Federal Reserve Bank of New York,
New York, New York. 10045.

Dear Mr. Reed:

As requested in your letter of August 6, 1965, the Board of Governors approves the appointment of Mr. Edward C. Young as Federal Reserve Agent's Representative at the Buffalo Branch to succeed Mr. Arthur A. Randall.

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

When not engaged in the performance of his duties as Federal Reserve Agent's Representative, Mr. Young may, with the approval of the Federal Reserve Agent and the Vice President in charge of the Buffalo Branch, perform such work for the Branch as will not be inconsistent with the duties as Federal Reserve Agent's Representative.

It will be appreciated if Mr. Young is fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

Please have Mr. Young execute the usual Oath of Office which should then be forwarded to the Board of Governors along with notification of the effective date of his appointment.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.



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

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Item No. 6
8/19/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 19, 1965

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

Dear Mr. Treiber:

As requested in your letter of August 5, 1965,
the Board of Governors approves the retention of Mr. Clifton
R. Gordon as Director of the Relocation Center at Ithaca,
New York, until he attains age 72 with the understanding
that his employment could be terminated at an earlier date
at the discretion of the Bank.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.