

Minutes for September 20, 1965

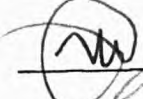
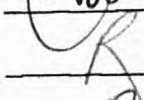
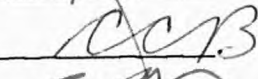

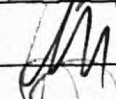

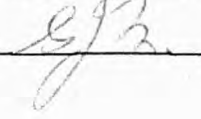
To: Members of the Board

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, September 20, 1965. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Molony, Assistant to the Board
 Mr. Fauver, Assistant to the Board
 Mr. Hackley, General Counsel
 Mr. Solomon, Director, Division of Examinations
 Mr. Hexter, Assistant General Counsel
 Mr. Shay, Assistant General Counsel
 Miss Hart and Mrs. Heller, Senior Attorneys,
 Legal Division
 Mr. Shuter, Attorney, Legal Division
 Mr. Egertson, Supervisory Review Examiner,
 Division of Examinations

Ratification of actions. Actions taken at a meeting of the available members of the Board on September 17, 1965, as recorded in the minutes of that meeting, were ratified by unanimous vote.

Circulated 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 Chemical Bank New York Trust Company, New York, New York, approving the establishment of a branch at 1350 Avenue of the Americas, Borough of Manhattan.	1
Letter to Bankers Trust Company, New York, New York, approving the establishment of a branch at 100 Broad- way, Borough of Manhattan.	2

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	<u>Item No.</u>
Letter to Manufacturers and Traders Trust Company, Buffalo, New York, approving the establishment of a branch in Eggertsville, Town of Amherst.	3
Letter to The Bank of Salem, Salem, Virginia, approving the establishment of a branch at U.S. Route 220 (Franklin Road) and Townside Road, Roanoke County.	4
Letter to The Blanchard State Bank, Blanchard, Michigan, approving the establishment of a branch in Six Lakes.	5
Letter to Citizens Commercial & Savings Bank, Flint, Michigan, approving the establishment of a branch at 1105 Robert T. Longway Boulevard and reiterating the need to augment the bank's capital. <u>1/</u>	6
Letter to Union Bank and Trust Company, Grand Rapids, Michigan, approving the establishment of a branch at East Beltline and 28th Street, S. E., and urging adoption of a program to augment the bank's capital.	7
Letter to Bremen State Bank, Tinley Park, Illinois, approving an investment in bank premises.	8

Regulation U matter. At its meeting on September 3, 1965, the Board was advised by its staff of circumstances indicating a probable violation of Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks, by The First National Bank of Boston, Boston, Massachusetts. Briefly, the apparent violation consisted of the bank's making a loan to Triangle Corporation of the

1/ By decision of the Board, the draft letter to the applicant bank was amended to include a reiteration of the need to augment the bank's capital, as indicated by the Board recently in connection with the approval of certain other branch applications from this bank.

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full purchase price (some \$1.8 million) of controlling interest in Precisionware Corporation, Inc., the stock of which was registered on the American Stock Exchange, and taking the stock as collateral for the loan. The loan was described in a proxy statement of Precisionware dated August 16, 1965, and an interested party had called the loan to the attention of the Securities and Exchange Commission, which in turn referred the matter to the Board. At the September 3 meeting, the Board authorized the Federal Reserve Bank of Boston to send to the national bank a letter asking for an explanation and for proposals to correct the situation. In reply, counsel for the bank conceded, in essence, that the alleged violation did occur. The explanation was that the loan was made in the "commodity and factoring" department of the bank, that the lending officer in charge of the credit was not familiar with Regulation U, and that counsel for the bank failed to point out the applicability of the regulation. It was stated that the real purpose of the loan was to merge Precisionware into Triangle, something that was to be accomplished at a stockholders' meeting on September 17, that the assets of Precisionware were the collateral on which the bank expected to rely, and that the bank did not rely on the stock in making the loan and took it merely to strengthen the collateral. On September 10, counsel advised the Board's staff that First National Bank had released the Precisionware stock unconditionally.

In a distributed memorandum dated September 14, 1965, the Legal Division presented for consideration alternative actions that

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the Board might take in the circumstances. One possibility (apparently unprecedented in the history of Regulation U) would be to refer the matter to the Securities and Exchange Commission. If such referral were made, it appeared that the Commission might consider a variety of alternative steps, including (1) informally calling representatives of First National Bank to Washington to explain the violation and why the bank's procedures were not adequate to prevent its occurrence, (2) issue an order for a formal investigation before a hearing officer into the bank's lending practices, (3) if indicated, apply for a court injunction forbidding the bank from engaging in practices violating Regulation U, and (4) refer the matter to the Department of Justice for possible prosecution. The Commission's staff agreed with the Board's staff that referral to the Department of Justice probably would not be warranted. Further, while the violation might justify informal action of the kind described in the first alternative, staff of the Commission felt that the Commission would be able to assist the Board more effectively if information could be developed on the loan practices of the bank concerned in the Regulation U area generally before any referral was made.

Accordingly, the Legal Division's memorandum suggested a review of First National Bank's lending procedures to determine whether there appeared to be a general climate of disregard for Regulation U and to assure that procedures were instituted to prevent violations from occurring in the future. Of the procedural alternatives that appeared

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to be available for making such a review, it was recommended that the bank be advised by letter of the Board's intention to inspect the bank's business operations in regard to Regulation U, and asked to cooperate in facilitating such an inspection. Submitted with the memorandum was a draft of letter that might be sent to the bank. The Comptroller of the Currency would be informed of the Board's intention and invited to designate an examiner to cooperate in the review program. Assistance of an examiner experienced in Regulation U matters would be requested from the New York Reserve Bank, and a group composed of this examiner, a representative of the Boston Reserve Bank, a member of the Board's Legal Division, and (if the Comptroller wished to cooperate) the examiner designated by the Comptroller would formulate guidelines for an inquiry.

The memorandum also noted indications of what might be a growing climate of disregard for Regulation U among some banks. For example, an officer of the Federal Reserve Bank of Chicago had reported a number of recent instances in the Chicago and Milwaukee areas in which national banks apparently had taken an indirect security interest in stock in connection with "purpose" loans, despite a published interpretation of the Board holding such arrangements to be in violation of the regulation.

In commenting on the matter, Miss Hart reviewed the circumstances surrounding the apparent Regulation U violation, the explanation offered by counsel for First National Bank of Boston, and reasons why members of the Board's staff regarded the explanation as somewhat less than fully

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satisfactory. She also noted that no violations of Regulation U on the part of national banks had been reported to the Board's staff by the Comptroller's Office in recent years, which might indicate a more relaxed attitude on the part of national bank examiners toward Regulation U matters and some disparity of supervisory standards. She pointed out that the Board had authority under section 17(b) of the Securities Exchange Act of 1934 to inspect the records of any lender subject to its regulations, including a bank such as First National Bank of Boston, if in the judgment of the Board this was necessary in order to obtain information needed by the Board to enable it to perform the functions conferred upon it by the Act. The Board had never used this authority, having relied on the sufficiency of the examining process, but the time may have come for the Board to exercise its authority.

Miss Hart brought out that the staff had no strong view on the type of follow-up that might be most appropriate concerning the apparent violation at First National Bank of Boston. However, the course of action recommended in the memorandum was thought to have some merit. If the bank developed to have been scrupulous in its affairs, such a review should do it no harm. If the bank had been engaging in questionable practices, the Board would be in better position to judge how to proceed further. If the review by any chance disclosed clear disregard for Regulation U in the bank's lending practices, the Securities and Exchange Commission would be in a better position to proceed should the Board determine to refer the matter to the Commission.

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In reply to a question, Miss Hart described how the apparent violation at First National Bank of Boston had happened to come to the attention of the Board's staff. In reply to another question, Mr. Shuter said the possible violations by national banks in the Chicago-Milwaukee area had come to the attention of the Chicago Reserve Bank when a Milwaukee State member bank inquired whether a certain loan procedure would involve a violation of the regulation and indicated that some national banks were following such a procedure.

Governor Robertson then suggested an alternative course of action, as follows. He would send a letter to the Comptroller of the Currency requesting him to instruct his examiner, at the time of the next examination of First National Bank of Boston, to check carefully and see whether or not there had been violations of Regulation U. Further, if there was sufficient basis, the letter might indicate that the Board had received information concerning possible violations at certain national banks in the Chicago-Milwaukee area and ask the Comptroller to have his examiners check for compliance by these banks with Regulation U. Governor Robertson, in explaining his suggestion, said he would exhaust all possibilities for obtaining compliance with Regulation U through the examining process before cutting across that process and sending a team of investigators into a national bank. If it were known that there had been many Regulation U violations at First National Bank of Boston, there might be some justification for making a special

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investigation. However, counsel for the bank had stated that the apparent violation was an isolated case. Governor Robertson added, in conclusion, that he felt the Board should continue to be alert for any indications of a deterioration in adherence to the provisions of Regulation U by banks generally.

Governor Maisel suggested that the letter to the Comptroller point out that there was the basic question whether the matter involving First National Bank of Boston should be referred to the Securities and Exchange Commission. The Comptroller could be requested to have his examiner determine whether there was sufficient evidence of disregard for Regulation U to warrant a referral to the Commission. This would put the matter before the Comptroller in the form of a specific question requiring an answer.

There was general agreement with the suggested approach of Governor Robertson and with the use of language along the lines proposed by Governor Maisel. On the question whether reference should be made to the possibility of violations of Regulation U by certain banks in the Chicago-Milwaukee area, Chairman Martin suggested that the letter to the Comptroller might say that some hearsay information had been brought to the Board's attention regarding banks in this area and that it was hoped the Comptroller would have his examiners look at these situations also to see whether violations had occurred. Other Board members concurred in this suggestion.

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Given the new approach to the problem referred to in the staff memorandum, question was raised about the letter that would be sent to First National Bank of Boston. It was generally agreed that the first part of the draft letter submitted for the Board's consideration, stating the facts of the matter, continued to be appropriate. Mr. Hexter suggested concluding the letter with a statement that this occurrence indicated possible absence of attention to, and awareness of, Regulation U on the part of the bank's lending officers, that the Board expected the bank to review the situation internally and take steps to have Regulation U better observed, and that the Board desired information from the bank on what steps had been taken along these lines. Members of the Board concurred in the appropriateness of language such as Mr. Hexter had mentioned.

Mr. Molony stated reasons why he considered it important that the Board's record on the matter be ample, and Governor Robertson indicated that he felt this would be accomplished by the sending of the letter to First National Bank of Boston, the sending of the letter to the Comptroller, and the sending of copies to all Federal Reserve Banks. Chairman Martin added that copies should be sent also to the Securities and Exchange Commission.

There being general agreement on proceeding in the manner described during the foregoing discussion, unanimous approval was given to the sending of letters to First National Bank of Boston and to the Comptroller of the Currency in the form indicated.

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Whitney Holding Corporation (Item No. 9). As stated in a memorandum dated September 17, 1965, from the Legal Division, copies of which had been distributed, counsel for Whitney Holding Corporation, New Orleans, Louisiana, had requested, in view of the disruption of facilities in the New Orleans area resulting from a recent hurricane, a 10-day extension, to October 4, 1965, of the time prescribed for the filing of a reply brief in the matter of the Board's reconsideration of its application to become a bank holding company. It was understood that counsel for the opposing banks had no objection.

The request was granted, and unanimous approval was given to the issuance of an order in the form attached as Item No. 9.

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

Emergency preparedness program. Chairman Martin pointed out that for a number of years Governor Robertson had been assigned special responsibility, at Board level, for development of the Board's emergency preparedness program. He said that after discussion with Governor Robertson, and at the latter's suggestion, he would propose that Governor Robertson be relieved of this responsibility, and he also suggested that Governor Maisel be designated in lieu of Governor Robertson.

There was unanimous agreement with this suggestion.

The meeting then adjourned.

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Secretary's Note: Acting in the absence of Governor Shepardson, Governor Robertson today approved on behalf of the Board memorandum recommending the following actions relating to the Board's staff:

Appointment

Johnnie D. Jones, Jr., as Laborer, Division of Administrative Services, with basic annual salary at the rate of \$3,385, effective the date of entrance upon duty.

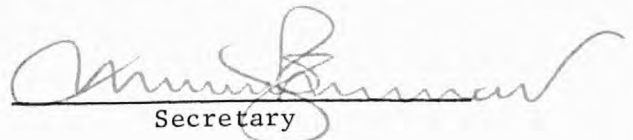
Transfers

Julie Heard, from the position of Stenographer in the Division of Personnel Administration to the position of Stenographer in the Legal Division, with no change in basic annual salary at the rate of \$4,005, effective September 20, 1965.

Patricia A. Schoen, from the position of Stenographer in the Legal Division to the position of Stenographer in the Division of Research and Statistics, with no change in basic annual salary at the rate of \$4,630, effective September 20, 1965.

Acceptance of resignation

Corwin D. Vencill, Summer Research Assistant, Division of Research and Statistics, effective at the close of business September 17, 1965.


Secretary

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

Item No. 1
9/20/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 20, 1965.



Board of Directors,
Chemical Bank New York
Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Chemical Bank New York Trust Company, New York, New York, of a branch at 1350 Avenue of the Americas, Borough of Manhattan, New York, New York, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
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
9/20/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 20, 1965.

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

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bankers Trust Company, New York, New York, of a branch at 100 Broadway, Borough of Manhattan, New York, New York, for the limited purpose of conducting the operations of its Corporate Trust Division, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
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
9/20/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 20, 1965.

Board of Directors,
Manufacturers and Traders Trust Company,
Buffalo, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Manufacturers and Traders Trust Company, Buffalo, New York, of a branch in University Plaza (about 775 feet from your existing branch at 46 University Plaza), 3500 Main Street, Eggertsville (unincorporated area), Town of Amherst, Erie County, New York, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

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

Item No. 4
9/20/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 20, 1965.



Board of Directors,
The Bank of Salem,
Salem, Virginia.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Bank of Salem, Salem, Virginia, of a branch on the northwest corner of the intersection of U. S. Route 220 (Franklin Road) and Townside Road, Roanoke County, Virginia, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
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. 5
9/20/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



September 20, 1965.

Board of Directors,
The Blanchard State Bank,
Blanchard, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Blanchard State Bank, Blanchard, Michigan, of a branch at 233 West Bridge Street in the unincorporated village of Six Lakes, Montcalm County, Michigan, provided the branch is established within one year from the date of this letter, and that, prior to the establishment of the branch, the bank's capital stock is increased to the amount required by paragraph 3 of Section 9 of the Federal Reserve Act and related statutes. The bank's proposal to increase its capital stock to \$100,000 would satisfy statutory requirements.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
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. 6
9/20/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 20, 1965.



Board of Directors,
Citizens Commercial & Savings Bank,
Flint, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Citizens Commercial & Savings Bank, Flint, Michigan, of a branch at 1105 Robert T. Longway Boulevard, Flint, Michigan, provided the branch is established within one year from the date of this letter.

The Board wishes to reiterate the views expressed in its letter to your bank dated July 16, 1965, in which the Board then noted that your bank's capital position was somewhat less than satisfactory and urged that serious consideration be given to all means of strengthening the bank's capital structure.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
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. 7
9/20/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 20, 1965.

Board of Directors,
Union Bank and Trust Company,
Grand Rapids, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Union Bank and Trust Company, Grand Rapids, Michigan, of a branch at the north-east corner of East Beltline, S. E., and 28th Street, S. E., Grand Rapids, Michigan, provided the branch is established within one year from the date of this letter.

The Board wishes to reiterate its views originally expressed in a letter to your bank dated August 17, 1965. The Board then stated that capital funds are considered to be substantially less than the desirable minimum amount. It is urged that the meeting between your group and President Scanlon and Vice President Ross of the Federal Reserve Bank of Chicago, which has been mentioned in previous correspondence, be held at the earliest mutually convenient time and that a program be developed to increase the capital funds of the bank.

Very truly yours,

(Signed) Elizabeth L. Carmichael

**Elizabeth L. Carmichael,
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. 8
9/20/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 20, 1965.

Board of Directors,
Bremen State Bank,
Tinley Park, Illinois.

Gentlemen:

Pursuant to the provisions of Section 24A of the Federal Reserve Act, the Board of Governors of the Federal Reserve System approves an investment of not to exceed \$375,000 in bank premises by Bremen State Bank, Tinley Park, Illinois, for the purpose of constructing a new banking house.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

UNITED STATES OF AMERICA

Item No. 9

9/20/65

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of
WHITNEY HOLDING CORPORATION
for approval of its becoming a bank holding
company by acquiring the stock of Crescent
City National Bank, New Orleans, Louisiana,
and Whitney National Bank in Jefferson Parish,
Jefferson Parish, Louisiana.

ORDER EXTENDING TIME FOR
SUBMISSION OF FURTHER BRIEF

By Orders dated July 23 and July 30, 1965, the Board of Governors provided an opportunity for the submission of briefs in connection with the Board's reconsideration of the application of Whitney Holding Corporation ("Applicant") and further provided, in the Order of July 23, that "Applicant may submit a further brief not later than 10 days after its receipt of said answering briefs."

By letter to the Board dated September 15, 1965, Applicant has requested a ten-day extension of time within which its further brief may be submitted. It appears to the Board that good cause has been shown for granting the requested extension and that such extension would not be inconsistent with the public interest.

It is therefore ordered that the Board's Order of July 23, 1965, be and it hereby is, amended so that the provision quoted above shall read "not later than twenty days after its receipt of said answering briefs."

Dated at Washington, D. C., this 20th day of September, 1965.

By order of the Board of Governors.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)