

Minutes for September 23, 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>RM</u>
Gov. Robertson	<u></u>
Gov. Balderston	<u>CCB</u>
Gov. Shepardson	<u>SSP</u>
Gov. Mitchell	<u>MM</u>
Gov. Daane	<u>DD</u>
Gov. Maisel	<u>SM</u>

Minutes of the Board of Governors of the Federal Reserve System on Thursday, September 23, 1965. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Fauver, Assistant to the Board
 Mr. Hackley, General Counsel
 Mr. Solomon, Director, Division of Examinations
 Mr. Johnson, Director, Division of Personnel Administration
 Mr. Daniels, Assistant Director, Division of Bank Operations
 Miss Eaton, General Assistant, Office of the Secretary
 Mr. Young, Senior Attorney, Legal Division
 Mr. Egertson, Supervisory Review Examiner, Division of Examinations

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 Commercial Bank and Savings Company, Fostoria, Ohio, approving the establishment of a branch at 200 South Main Street in connection with the relocation of the bank's main office from that location to 220 Perry Street.	1
Letter to Trust Company of Georgia, Atlanta, Georgia, approving the establishment of branches (1) in the Ten Pryor Street Building and (2) at Auburn Avenue and Pryor Street, branch operations at these locations to be discontinued upon completion of the bank's new main office building.	2

9/23/65

-2-

Item No.

Letter to Grant County Bank, Sheridan, Arkansas, approving an investment in bank premises.	3
Letter to The Lumbermen's National Bank of Houston, Houston, Texas, granting its request for permission to maintain reduced reserves.	4
Letter to the Federal Reserve Bank of Cleveland approving the payment of fees to outside counsel.	5
Letter to the Federal Reserve Bank of Richmond approving the appointment of S. P. Fishburne as Federal Reserve Agent's Representative for the sole purpose of custody of Federal Reserve notes stored at cash agent banks.	6

The meeting then adjourned.

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

Letter to the Federal Reserve Bank of Richmond (attached Item No. 7)
approving the appointment of James E. Hastings and Wyatt F. Davis as
examiners.

Letter to the Federal Reserve Bank of San Francisco (attached Item
No. 8) approving the appointment of Leslie E. Tvedt as assistant examiner.

Letter to the Federal Reserve Bank of Kansas City (attached Item
No. 9) approving the appointment of Elliott L. Eagle as assistant
examiner.

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

Acceptance of resignations

John T. Gaskins, Messenger, Division of Administrative Services,
effective at the close of business September 24, 1965.

Sandra L. Connor, Secretary, Division of Data Processing, effective
at the close of business October 1, 1965.

9/23/65

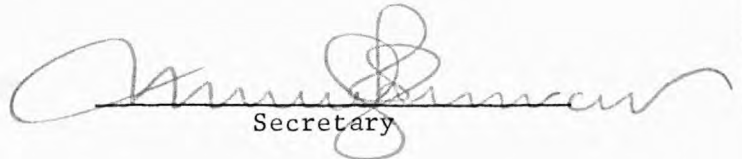
-3-

Acceptance of resignations (continued)

Marion Vaughn, Computer Programmer, Division of Data Processing, effective October 8, 1965.

Daniel E. Lucas, Analyst, Division of Bank Operations, effective at the close of business October 9, 1965.

Pursuant to the discussion by the Board on September 20, 1965, of an apparent violation of Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks, by First National Bank of Boston, Boston, Massachusetts, letters reflecting the decision reached at that meeting were sent under today's date to counsel for the national bank and to the Comptroller of the Currency. Copies are attached as Items 10 and 11. Letters also were sent to the Federal Reserve Banks of New York and Boston and to the Federal Deposit Insurance Corporation enclosing copies of the pertinent correspondence and requesting that their examiners give particular attention to the procedures of the banks under their supervisory jurisdiction that participated in the credit involving the apparent Regulation U violation. Copies of the correspondence were also sent to the Securities and Exchange Commission for its information.



Secretary

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

3146

Item No. 1
9/23/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 23, 1965



Board of Directors,
The Commercial Bank and Savings Company,
Fostoria, Ohio.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Commercial Bank and Savings Company, Fostoria, Ohio, of a branch at 200 South Main Street, Fostoria, Ohio, in connection with the relocation of the bank's main office from that location to 220 Perry Street, Fostoria, Ohio.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

3147

**BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM**

WASHINGTON, D. C. 20551

Item No. 2
9/23/65

**ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD**

September 23, 1965



Board of Directors,
Trust Company of Georgia,
Atlanta, Georgia.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Trust Company of Georgia, Atlanta, Georgia, in the Ten Pryor Street Building, Atlanta, Georgia, and a branch at the intersection of Auburn Avenue and Pryor Street (across the street from the bank's main office), Atlanta, Georgia, provided that branch operations at these locations are discontinued upon the completion of your new main office building.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

3148

Item No. 3

9/23/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 23, 1965

Board of Directors,
Grant County Bank,
Sheridan, Arkansas.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an investment in bank premises by Grant County Bank of not to exceed \$158,700 for the construction of a new bank building. This amount does not include the carrying value of present banking quarters or the book value of property previously purchased for expansion of banking premises.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

3149

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4
9/23/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 23, 1965



Board of Directors,
The Lumbermen's National Bank
of Houston,
Houston, Texas.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to The Lumbermen's National Bank of Houston to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective as of the date it opens for business.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 5
9/23/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 23, 1965.



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

Dear Mr. Hickman:

This is to advise, in response to your letter of September 17, 1965, that the Board approves the payment of not to exceed \$6,000 for legal fees to special counsel for services rendered in connection with your Bank's acquisition of real estate in Cincinnati, Ohio, to be used as the site for the new Cincinnati branch.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6
9/23/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 23, 1965



Mr. Edwin Hyde,
Federal Reserve Agent,
Federal Reserve Bank of Richmond,
Richmond, Virginia. 23213.

Dear Mr. Hyde:

As requested in your letter of September 9, 1965, the Board of Governors approves the appointment of Mr. S. P. Fishburne, Vice President and Cashier of the Charlotte Branch, to succeed Mr. S. A. Ligon as Federal Reserve Agent's Representative for the sole purpose of custody of Federal Reserve notes stored at Cash Agent Banks.

Please have Mr. Fishburne execute the usual Oath of Office which should 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

Item No. 7
9/23/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 23, 1965



Mr. John L. Nosker, Vice President,
Federal Reserve Bank of Richmond,
Richmond, Virginia. 23213

Dear Mr. Nosker:

In accordance with the requests contained in your letters of September 17, 1965, the Board approves the appointments of James E. Hastings and Wyatt F. Davis, at present assistant examiners, as examiners for the Federal Reserve Bank of Richmond, effective October 1, 1965.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 8
9/23/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 24, 1965

Mr. E. H. Galvin, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco, California. 94120

Dear Mr. Galvin:

In accordance with the request contained in your letter of September 16, 1965, the Board approves the appointment of Leslie E. Tvedt as an assistant examiner for the Federal Reserve Bank of San Francisco, effective today.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 9
9/23/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 24, 1965.

Mr. George D. Royer, Jr., Vice President,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri. 64106

Dear Mr. Royer:

In accordance with the request contained in your letter of September 21, 1965, the Board approves the appointment of Elliott L. Eagle as an assistant examiner for the Federal Reserve Bank of Kansas City. Please advise the salary rate and the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 10
9/23/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 23, 1965.

Mr. Thomas J. Lynch,
Corcoran, Foley, Youngman & Rowe,
1511 K Street, N. W.,
Washington, D. C.

Dear Mr. Lynch:

This refers to your letter of September 8, 1965, addressed to Chairman Martin, in connection with a loan by First National Bank of Boston ("First"), to Triangle Corporation. Your letter was written in response to a letter of September 3, 1965, from Mr. Laurence H. Stone, Secretary and Associate General Counsel of the Federal Reserve Bank of Boston, to Mr. Joseph H. B. Edwards, of the Boston law firm of Bingham, Dana, and Gould, counsel for First.

Your account of the transaction in question, which you have received from Mr. John T. Hayes, also of Bingham, Dana, and Gould, agrees with the conclusions reached by Mr. Stone in his preliminary review of the matter, as summarized in his letter of September 3, 1965. To review the facts briefly, First had extended to Triangle a credit amounting to some \$12 million under a loan agreement that gave the bank a security interest in accounts receivable and inventories of Triangle and eleven of its subsidiaries. This credit was granted and administered in the factoring and commodity department of the bank. According to information furnished Mr. Stone by the loan officer of First actually charged with administering the loan, at all times material to the question before the Board, credit had been extended in amounts equal or very close to the full loan value allocated to the collateral under the agreement.

In April 1965, controlling stockholders in Triangle approached First with a proposal that the bank make a further loan of \$1.8 million for the purpose of purchasing two-thirds or more of the stock in Precisionware Corporation, Inc., a manufacturer of kitchen cabinets. Triangle is a manufacturer and distributor of lumber and millwork.

The stock of Precisionware is registered on the American Stock Exchange. The \$1.8 million loan represented approximately the full market price of the stock to be purchased. It was contemplated that at

Mr. Thomas J. Lynch

-2-

a stockholders' meeting on September 17, 1965, the shares to be acquired with proceeds of the loan would be voted in favor of merging the corporation into Triangle, that these shares would then be cancelled, \$1 million of the total credit would be paid off in cash, and assets and accounts receivable of Precisionware would be added to the collateral held by First against the remaining loan, which would then amount to roughly \$13 million.

At this point the record is not entirely clear. A controlling block of stock in a solvent and profitable corporation has a certain monetary value. The statement by First's loan officer that the prior credit to Triangle was fully extended under the terms of the agreement, and that the Precisionware stock purchased with proceeds of the additional loan was added to collateral already held by the bank, and the \$1.8 million purchase price to the existing credit of \$12 million, permits the inference that First relied on the stock in making the additional loan. During telephone discussion of the matter, Mr. Hayes stated to members of the Board's staff that the bank held the stock in order to make absolutely certain that the shares would be voted in favor of the merger, in accordance with the agreement with the borrowers, on September 17. Your letter states that the stock was taken merely as an additional precaution and not deemed necessary to support the additional credit. However, you also state that the credit was extended in reliance on the "pro forma" consolidated position of Triangle and Precisionware after the merger. Until the merger took place, the bank had no security interest in Precisionware assets aside from the purchased stock.

Section 221.1(a), the general rule of the Board's Regulation U, "Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks" provides that

"No bank shall make any loan secured directly or indirectly by any stock for the purpose of purchasing or carrying any stock registered on a national securities exchange . . . in an amount exceeding the maximum loan value of the collateral, as prescribed from time to time for stocks in § 221.4 . . . and as determined by the bank in good faith for any collateral other than stocks."

It is clear that the \$1.8 million advance in April was made for the purpose of purchasing stock in Precisionware, which stock is registered on a national securities exchange. The Board is also of the opinion, under the facts presented to it, that (1) the loan was "secured" by stock within the meaning of the regulation, and (2) the amount of the loan exceeded the maximum loan value of the collateral, determined in accordance with the tests laid down in sections 221.1(a) and 221.4.

Mr. Thomas J. Lynch

-3-

As to the first point, it is clear that whether the shares were assigned their per/share market value as collateral for the loan, or were valued as a block representing control of Precisionware, or were held primarily to ensure performance of an agreement to vote them in favor of a merger as the result of which the additional loan would be paid down in part and assets more suitable for the commodity and factoring department of the bank substituted for the balance; or whether, finally, they were taken merely as an additional precaution "to further strengthen a loan that was already secure", as your letter states, the purchased Precisionware stock did serve to secure the loan.

As to the second, it is apparent that the agreement between First and Triangle under which the original \$12 million credit was extended included a "good faith" determination of the loan value of the collateral allotted to the bank under that agreement. It is true that a prudent banker will sometimes, for his bank's protection, take more collateral than he believes absolutely necessary to support a given credit, and that First might have been willing to lend more than \$12 million against the same assets. Nevertheless, the \$12 million loan value, arrived at after arm's length bargaining, should be given considerable weight as a good faith determination by the bank of the maximum credit the collateral would support. The conclusion that the bank did not regard this collateral as sufficient to support the total credit is strengthened by the statement in your letter that "on a pro forma consolidated basis" the assets of the resulting corporation, after the merger of Precisionware into Triangle, would justify the additional loan. Since First had no way of asserting a security interest in Precisionware's assets except through the purchased stock, the stock must be regarded as an essential part of the collateral for the additional loan.

Under the guidelines laid down in an interpretation at 1959 Federal Reserve Bulletin 256-257, the stock in Precisionware, although a controlling block, should be valued for Regulation U purposes at the actual price paid for it, since it is assumed that this price reflected intangible factors, including control. Accordingly, the loan value of the stock, under the current supplement to the regulation, was approximately \$0.54 million, and the total loan value of all the collateral taken together was \$12.54 million. Since the total loan was well in excess of this amount, it appears that the loan was made in violation of section 221.1(a).

In addition, section 221.3(n)(1) of the regulation provides that

"The bank shall identify all the collateral used to meet the collateral requirements of § 221.1 (entire indebtedness being considered a single loan and collateral being similarly considered . . .)."

and section 221.3(n)(3) adds the requirement that

"For any indebtedness that is not subject to § 221.1 . . . the bank shall in good faith require as much collateral not so identified as the bank would require (if any) if it held neither the indebtedness subject to 221.1 nor the identified collateral."

Accordingly, First was required, when it made the \$1.8 million loan to purchase stock in Precisionware, to identify the collateral used to meet the requirements of section 221.1, and to require in good faith as much collateral against the \$12 million loan as it would have required had it held neither the \$1.8 million loan nor the identified collateral. Since the maximum loan value of the purchased stock was \$0.54 million, this section required First to identify, in addition, out of the collateral held against the prior \$12 million loan, collateral with a loan value of some \$1.26 million. This identification was not made, and had it been made, would, it appears, have left a deficiency in the collateral held against the prior loan. For these reasons, it appears that the transactions violated sections 211.3(n)(1) and 221.3(n)(3).

It is understood that First released the stock in Precisionware following the sending of your letter of September 8, 1965, and that the stock certificates are to be cancelled as part of the merger of Precisionware into Triangle. The Board notes First's assurance that this is an isolated case and that no similar situations now exist or, so far as can be ascertained, ever did exist in First's lending operations. The Board believes, however, that in view of the seriousness of these apparent violations, there should be a thorough review of the practices and procedures that apparently permitted them to occur. After that review is completed and appropriate controls are established, it will be appreciated if First will advise the Board, through the Federal Reserve Bank of Boston, regarding the procedures currently being followed to assure compliance with Regulation U, particularly details of all changes that have been instituted since this matter was raised with First.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

3159

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

Item No. 11
9/23/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 23, 1965.



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

Dear Mr. Saxon:

Enclosed is a copy of a letter of today's date from the Board of Governors to Mr. Thomas J. Lynch of the law firm of Corcoran, Foley, Youngman & Rowe, Washington, D. C., representing First National Bank of Boston, Boston, Massachusetts ("First"), in which the Board has expressed the conclusion, based on facts called to its attention by the Securities and Exchange Commission and confirmed by counsel for the bank, that a loan by First, described in the Board's letter, apparently was made in violation of the Board's Regulation U, "Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks". A copy of the regulation is enclosed for convenient reference. Copies of a letter of September 3, 1965, from Mr. Laurence H. Stone, General Counsel and Vice President of the Federal Reserve Bank of Boston, addressed to Mr. Joseph H. B. Edwards, of the law firm of Bingham, Dana & Gould, Boston, Massachusetts, counsel for First, and of a letter of September 8, 1965, from Mr. Lynch, addressed to Chairman Martin, are also enclosed.

In view of the substantial amount of the loan involved, and of the fact that First offers, essentially, no explanation other than inadvertence, it would be appreciated if you would instruct your examiners to make a particularly careful review of the bank's lending procedures, on the occasion of your next examination, in order to ascertain what precautions First is taking to ensure that the requirements of Regulation U are being observed in connection with loans that are for the purpose of purchasing or carrying stocks registered on a national securities exchange, and are secured, directly or indirectly, by any stock.

The Honorable James J. Saxon -2-

The loan in question was arranged and managed by First, which, the Board is informed, retained 65.5 per cent of the total credit. The remaining 34.5 per cent was divided among five participating banks, including the following

Commercial Bank of North America, New York City, 10 per cent
Trade Bank & Trust Company, New York City, 8.5 per cent
Union & New Haven Trust Company, New Haven, Conn., 5 per cent
State National Bank of Connecticut, Bridgeport, Conn., 6 per cent
Connecticut Bank & Trust Company, Hartford, Conn., 5 per cent

While First must be assumed to have taken primary responsibility for ensuring that the credit would be extended in conformity with applicable law and regulations, the Board would also appreciate it if your examiner, upon his next examination of State National Bank of Connecticut, would give particular attention to procedures observed by that bank to ensure that its loans do not violate the requirements of Regulation U.

The Board would very much appreciate being informed of the results of your examiners' inquiries in this connection.

Very truly yours,



Merritt Sherman,
Secretary.

Enclosures