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
Discount rates. The establishment without change by the Federal Reserve Bank of Boston on October 11, 1965, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to the Bank.

Reports on competitive factors. Reports to the Comptroller of the Currency on the competitive factors involved in the following
proposed mergers were approved unanimously for transmittal to the
Comptroller, the conclusions reading as follows:


The proposed merger of Citizens First National Bank of Frankfort and The Oneida National Bank and Trust Company of Central New York, Utica, would eliminate competition and increase the concentration of banking resources in the Oneida-Herkimer County area. The effect of the proposed merger on competition would be significantly adverse.

Merger of Commonwealth Bank, Los Angeles, California, into City National Bank, Beverly Hills, California

The proposed merger of Commonwealth Bank, Los Angeles, into City National Bank, Beverly Hills, would eliminate a small amount of competition existing between them, and eliminate a bank which in its short history has accumulated approximately $20 million in deposits. Particularly in a State where there is now a heavy concentration of banking resources in a few large banks, consummation of the proposed transaction would have an adverse effect on competition.

Application of Virginia Commonwealth (Item No. 1). The Board authorized the issuance of an order granting the request of Virginia Commonwealth Corporation, Richmond, Virginia, for an extension of time to acquire shares of First National Bank of Vienna, Vienna, Virginia. (The application for the acquisition had been approved by order of the Board dated August 27, 1965.) A copy of the order granting the extension of time is attached as Item No. 1.

Applications of United Virginia Bankshares and Williamsburg State Bank. There had been distributed memoranda dated October 5, 1965, from the Division of Examinations and related material regarding (1) the application of United Virginia Bankshares Incorporated,
Richmond, Virginia, to acquire at least 90 per cent of the voting shares of Williamsburg State Bank, Williamsburg, Virginia, a proposed new bank, (2) the application of Williamsburg State Bank for membership in the Federal Reserve System, and (3) the application of Williamsburg State Bank to merge into itself Peninsula Bank and Trust Company and James-York Bank, both of Williamsburg (the resulting institution would operate under the charter and title of Peninsula Bank and Trust Company). For reasons set forth in the several memoranda, the Division of Examinations recommended approval of all three applications.

Mr. Thompson commented on the proposed acquisition by the holding company, after which Mr. Egertson discussed the merger and System membership applications. Among other things, Mr. Egertson mentioned that through inadvertence Williamsburg State Bank had not published in local newspapers its notice of merger application until about two weeks ago, and under the terms of the statute the order containing the Board's decision therefore could not be issued for about three weeks.

Governor Maisel noted that in the memorandum regarding the holding company application a table was presented, based on studies made by the Division in which States were ranked according to their commercial banking concentration, demonstrating that the four largest banking organizations in Mississippi had 27.4 per cent of the deposits in that State, which was the same percentage that the four bank holding
companies in Virginia would have if the present application were approved. He commented that it appeared to him that a more valid comparison was to be found in figures cited in the competitive factor report by the Department of Justice on the merger proposal, which showed that the four largest banking organizations in Virginia, two of which were banks and the other two of which were holding companies, accounted for approximately 40 per cent of total deposits in the State.

Chairman Martin then called upon the members of the Board for their views, in response to which Governor Robertson stated that he would oppose the holding company and merger applications. It was true that Peninsula Bank and Trust and James-York Bank were already affiliated through indirect common ownership and essentially operated under the same management. Therefore, if they were permitted to merge, the resulting effect on competition would be almost nil. However, consummation of the merger would forever preclude competition between the two institutions, whereas in the absence of the merger there was a chance that at some future time they would not be related. As for the holding company application, he believed that the figures for the State of Virginia as a whole did not portray most significantly the effect on banking concentration. Instead, it would be more important to look at the eastern part of Virginia. While he did not have the precise figures at hand, it was his guess that
concentration in eastern Virginia would go well above 50 per cent. Even if concentration were studied in terms of the Lower Peninsula of Virginia, which was used as an alternative area in the memoranda, it seemed to him that the picture shown in that limited area today was quite different from what it would be a few years hence. Distances in the Peninsula were not great, and population growth was going on there. The merger proposal would add the largest bank in Williamsburg; Peninsula Bank and Trust now had deposits of about $20 million, which was a sizable institution for a community of that size. There was nothing in the record to convince him that the community's needs and convenience were not being met at present, or that the benefits to the public through the proposed acquisition by the holding company would be great enough to offset the adverse consideration of undue concentration of power.

Governor Shepardson said that while figures had not been presented regarding banking concentration in eastern Virginia, it did not seem to him from a reading of the distributed material that there was an undue degree of concentration. He thought the convenience and needs factor in a developing area like Williamsburg was difficult to project. Although there was a bank with almost $20 million of deposits in Williamsburg, that bank apparently was not, had not been, and under its present control was not apt to meet the changing needs of the community if expansion should occur. He would approve the
holding company and merger applications on the basis of the Division's recommendations.

Governor Mitchell did not believe that figures on eastern Virginia concentration, even if available, would be particularly relevant. Williamsburg was essentially a one-bank town, and consummation of the proposed transactions would be a salutary development for the people in the community. He did not believe that the competitive picture would be altered by substituting a holding company subsidiary for the existing banks, and he thought that the change would slightly enhance the quality and quantity of banking services available to the community. Further, if larger customers could not get the complete range of services they needed in Williamsburg, they could go to Richmond or Norfolk, and therefore they were not being precluded from selecting among several banking alternatives. He did not have particular concern as to the banking concentration of the applicant holding company in this area, and he believed that on the basis of improved services there was a slight weight toward approval.

Governor Daane said that he concurred with Governor Mitchell's analysis. Williamsburg was a community peculiar unto itself and did not seem susceptible to inclusion in the Lower Peninsula area for purposes of analysis. He thought the net result of the holding company acquisition and the merger proposal would be beneficial to the public.
Governor Maisel said that although he had considered the proposal a little in terms of the Lower Peninsula, he had not given this aspect too much attention. If a presentation showed that the Lower Peninsula was a logical market area and that the proposed transactions would greatly increase banking concentration in that market, he would oppose them. However, the memorandum from the Division of Examinations did not contain a complete analysis of the case from this standpoint. Since the Board's decision could not be made public for about three weeks, he suggested that further studies might be made.

Mr. Solomon remarked that the Reserve Bank's exploration had been quite comprehensive. The Reserve Bank--and the Division of Examinations--held the view Governor Daane had just expressed, namely, that Williamsburg was a rather isolated type of community. Mr. Solomon did not believe that a very persuasive presentation could be made that the market area extended much beyond Williamsburg.

Governor Balderston and Chairman Martin stated that they would approve the holding company and merger applications for the reasons set forth by the Division. Chairman Martin expressed doubt whether there was sufficient reason to withhold action on the holding company application in order to gather additional material, and Governor Maisel then said that he would abstain from participation on the vote on that application.

The application of United Virginia Bankshares Incorporated to acquire shares of Williamsburg State Bank was thereupon approved,
Governor Robertson dissenting and Governor Maisel abstaining. The application of Williamsburg State Bank to merge with Peninsula Bank and Trust Company and James-York Bank was approved, Governor Robertson dissenting. It was understood that orders and a statement reflecting these decisions would be prepared for the Board's consideration, and that a dissenting statement by Governor Robertson also would be prepared.

The application of Williamsburg State Bank for membership in the Federal Reserve System was approved unanimously, with the understanding that a letter to the applicant reflecting this decision would be sent at an appropriate time.

Application of Central Wisconsin Bankshares. There had been distributed a memorandum dated August 19, 1965, from the Division of Examinations and other papers relating to the application of Central Wisconsin Bankshares, Inc., Wausau, Wisconsin, to acquire up to 100 per cent of the voting shares of Central National Bank of Stettin, Stettin, Wisconsin, a proposed new bank. The Division recommended denial, as had the Federal Reserve Bank of Chicago, while the Comptroller of the Currency recommended approval of the application.

The Division's adverse recommendation rested principally on three grounds--concentration, elimination of potential competition, and adverse effect on other local banks. Although the applicant holding company had less than one per cent of the deposits of all commercial banks in the State, its dominance in the Wausau area and in Marathon County was pronounced: its subsidiaries held about 65 per
cent of total deposits in the Wausau area and about half of those in the County. It was felt that the new bank's establishment as a subsidiary of the holding company probably would increase that dominance. The new bank was to be established in any event. If the applicant was not permitted to acquire it, the bank's organizers intended either to hold their shares or to offer them for sale, with priority given to the holding company's shareholders. Despite these close ties to the holding company, the possibility existed that over the years there might be a separation of common ownership and close management ties. If the Board should be inclined to approve the application, the Division recommended that a hearing be held on the Board's own motion, in the light of objections that had been filed on behalf of two local banks and an adverse recommendation of the Wisconsin Commissioner of Banks.

After summary comments by Mr. Lyon, Mr. O'Connell stated that the original objections filed by the two local banks had been supplemented by a brief, the principal points of which he then described.

Governor Mitchell commented that the objections that had been filed were misdirected. At their core was opposition to a new bank in a community that seemed already overbanked, and the decision to charter the new bank had already been made by the Comptroller of the Currency. The new bank was going to open in any event, and the objectors would gain nothing by stopping an affiliation of the new bank with the holding company.
Governor Mitchell expressed the view that it was germane to the problem to know why First American National Bank of Wausau, Central Wisconsin Bankshares' principal subsidiary, had over half of the total County deposits, and what First American's customers thought of its services. If the explanation was that First American had gathered such a percentage of area deposits because its services were outstanding, the Division's recommendation had the effect of putting the Board in the position of saying that dominance should not be permitted even if it arose from superior services. There did not seem to be much argument from the standpoint of the public interest either for or against allowing the new bank to be affiliated with the holding company; this was a case, therefore, in which it appeared that private interests were primarily involved.

In response to a question as to how, if he were the Comptroller of the Currency, he would have judged whether or not the new bank should be chartered, Governor Mitchell said he would have tried to find out whether there was an outstanding difference in the quality of service. If all of the existing banks in the community had had about the same opportunity to provide good service but some had not done so, that would have been an indication that there was room for another bank. In the absence of such an indication, he would have denied a charter on the ground of overbanking. He believed that increased competition should be allowed when it stimulated service,
but here the objectors seemed to be saying that they did not want to face additional competition.

In the present situation, Governor Mitchell continued, he would be disposed to have a hearing. He found it difficult to deny the application, partly because he did not know as many facts as he would like to know. Also, he would somewhat prefer to have relationships aboveboard rather than under the table, and the new bank would have close ties to the holding company even if it was not a subsidiary bank.

Governor Maisel said he thought the question the Board must answer was whether there would be more competition if the holding company application was denied. The question before the Board was whether there would be some disadvantage to the public if the new bank became affiliated with the holding company.

In a further exchange of comments, Governor Mitchell expressed his philosophy concerning the right of a dominant bank such as First American to open a branch (where State law permitted). He thought the right of entry should not be stopped by administrative action unless there was such a serious situation of overbanking as to raise the question of bank failures. A bank might have earned a large proportion of local business because of the superiority of its services to the community.

Chairman Martin then called upon the other members of the Board for expression of their positions, in response to which Governor
Robertson said that he would deny the application in accordance with the Division's recommendation. He believed the degree of local banking concentration in Central Wisconsin Bankshares' subsidiaries was already so great that approval would be justified only if such concentration were outweighed by some strongly favorable factor, and he did not see that there was one.

Governor Shepardson said he had the same concern as Governor Mitchell about under-the-table affiliations. However, in this case it seemed to him that the overall situation required denial of the application.

Governor Daane said that because of the concentration factor he would vote for denial, although he had sympathy for the point raised by Governor Mitchell.

Governor Maisel commented that he likewise would vote to deny. Governor Balderston said that carrying out the purposes of the Bank Holding Company Act, as written, seemed to him to require denial of the application.

Chairman Martin stated that he would vote for denial, although Governor Mitchell's view as to the position in which the Board had been placed had much to commend it.

The application of Central Wisconsin Bankshares was thereupon denied, Governor Mitchell dissenting. It was understood that an order and statement reflecting this decision would be prepared.
for the Board's consideration, and that a dissenting statement by Governor Mitchell also would be prepared.

Messrs. O'Connell, Thompson, Burton, Donovan, Lyon, Noory, Rumbarger, Sanford, and Smith (Examinations) then withdrew from the meeting.

Foreign operations of U.S. banks (Items 2 and 3). After discussions on June 2 and August 18, 1965, of the need for and possible scope of a research project on foreign operations of U.S. banks, Governors Mitchell, Shepardson, and Maisel were named as a committee to explore and recommend a framework for the conduct of the project. The committee reported initially at the meeting on August 25. There had now been distributed a memorandum from Governor Mitchell dated October 6, 1965, to which was attached a statement prepared by the staff on the objectives and scope of the research project. The committee had reviewed the statement, had authorized the staff to proceed with detailed planning along the lines indicated, and intended to review the progress of such detailed planning after about a month. In view of the eventual need for the participation and assistance of the Federal Reserve Banks in the project, the committee recommended that the statement be transmitted to the Presidents of the Federal Reserve Banks for their information.

The statement was approved unanimously, along with its transmittal to the Reserve Banks. Copies of the statement and of the
letter with which it was transmitted to the Reserve Banks are attached as Items 2 and 3.

Messrs. Hexter, Assistant General Counsel, Holland, Associate Director, Division of Research and Statistics, and Sanders, Senior Attorney, Legal Division, entered the room at this point.

Application of Citizens Bank. There had been distributed a memorandum dated October 4, 1965, from the Division of Examinations regarding the application of Citizens Bank, Smithville, Tennessee, for admission to membership in the Federal Reserve System. The bank was newly organized, and not yet in operation. The memorandum described various background circumstances, stated the recommendation of the Division of Examinations that the application be approved subject to the standard conditions of membership, and pointed out that while Vice President Stephenson of the Federal Reserve Bank of Atlanta believed that the application should be approved, the executive committee of the Reserve Bank recommended disapproval.

Mr. Leavitt commented on the underlying circumstances, which included questions that had been raised as to the need for an additional bank in the Smithville area and protests against the entry of a new bank that had been expressed by an individual who directly or indirectly owned or controlled most of the banks now in the area.

A consensus developed that, while the facts of the case seemed fairly clear and pointed toward approval, it would be desirable to have
in the record additional information regarding the reasons for the adverse recommendation of the executive committee of the Atlanta Reserve Bank. Action therefore was deferred pending the obtaining of such information.

Application of Union Bank. There had been distributed a memorandum dated October 5, 1965, from the Division of Examinations and other papers pertinent to the application of Union Bank, Los Angeles, California, to merge with The Republic National Bank of San Diego, San Diego, California. The memorandum noted that certain circumstances weighed against approval, especially the following: the proposal would eliminate a newly-organized, well-capitalized bank in a State characterized by a heavy concentration of banking resources in a few large banks; and Union Bank had received approval to establish a de novo branch in downtown San Diego, the location of Republic National's sole office, and therefore consummation of the merger would eliminate an alternative banking facility in San Diego and all potential for competition between the two banks. However, there were adverse banking factors in regard to Republic National: during its short history the bank had accumulated numerous problem loans with fairly heavy losses indicated; the bank was being operated without adequate management (particularly without the services of an experienced lending officer) and further deterioration in asset condition seemed probable; the merger proposal had caused disharmony among the directors, which could result in difficulty in attracting needed officer
personnel; and potential losses in the bank's loan portfolio, along with prospects for increased operating expenses, made earnings prospects only fair at best. These factors, along with a rather sharp decline in deposits, indicated that the prospects for Republic National were less than favorable. Upon balancing these considerations, the Division recommended that the application be approved.

After comments by Mr. Egertson summarizing the distributed information, Mr. Solomon pointed out that in California, with its Statewide branch banking, it was theoretically possible for any bank in the State to establish an office in San Diego. In this situation, and particularly in view of the difficulties confronting Republic National, the Division had concluded that here the elimination of an independent bank was not so strongly adverse a consideration as might at first appear.

In response to Chairman Martin's request for comments by members of the Board, Governor Robertson said that if a good small bank were involved, the elimination of competition that would result from consummation of the proposal would cause him to vote against the application. However, since the competition that would be sacrificed was only potential rather than actual, since the bank being merged had an unsatisfactory financial history and was experiencing difficulties with respect to both management and directors, and since a number of other alternatives for banking services were available in the area, he would support the recommendation presented by the Division of Examinations.
The other members of the Board also indicated that they would support the recommendation on the same basis.

The application of Union Bank was thereupon approved unanimously, the staff being requested to draft for the Board's consideration an order and statement reflecting this decision.

**Promissory notes of member banks.** Today's agenda provided for a continuation of the discussions held by the Board on September 9 and 14, 1965, regarding a proposal by Governor Robertson for amendments to Regulation Q, Payment of Interest on Deposits, and Regulation D, Reserves of Member Banks, with reference to the issuance by banks of short-term promissory notes. It was suggested, however, that further consideration of this subject be deferred until an occasion that was not subject to today's time limitations and when all members of the Board could participate. There was general agreement with this suggestion.

The meeting then adjourned.

Secretary's Notes: On October 12, 1965, Governor Shepardson approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

**Basis of employment**

Ruth M. Blackman, Clerk (Librarian), Division of Personnel Administration, continuation of a 16-hour work week, effective October 11, 1965, with annual salary at the rate of $1,872. (It was understood that this arrangement would be subject to review whenever it was felt desirable.)
Permission to engage in outside activity

Henry Edmonds, Grounds Maintenance Worker, Division of Administrative Services, to work as manager of a local retail store on a part-time basis.

Governor Shepardson today approved on behalf of the Board the following items:

Letter to Mr. Raymond T. Bowman, Assistant Director for Statistical Standards, Bureau of the Budget, advising of the designation of John E. Reynolds, Associate Adviser in the Division of International Finance, to represent the Board of Governors on the Technical Advisory Committee on Balance of Payments Statistics that would work with the Department of Commerce in implementing the recommendations contained in the Bernstein Committee report.

Memorandum from the Legal Division recommending the transfer of James R. Smith from the position of Accountant-Analyst in the Division of Examinations to the position of Legal Assistant in the Legal Division, with no change in basic annual salary at the rate of $11,315, effective upon assuming his new duties.

Acting in the absence of Governor Shepardson, Governor Robertson today approved on behalf of the Board a letter to the Federal Reserve Bank of San Francisco (attached Item No. 4) declining to approve the appointment of Donald W. Thompson as assistant examiner.

Secretary
The Board met in executive session at 9:15 a.m. with all members present. At approximately 10:00 a.m. Mr. Sherman, Secretary of the Board, was called into the meeting.

The Board gave consideration to the proposed appointment of John J. Hoy, currently Vice President, as First Vice President of the Federal Reserve Bank of Cleveland for the five-year term beginning March 1, 1966, at an annual salary of $25,000. The Board had before it letters from Chairman Hall of the Cleveland Bank dated July 15, 1965, and from President Hickman dated August 3, 1965, indicating that Mr. Hoy's appointment with salary at the rate indicated had been approved by the Cleveland Bank's Board of Directors on July 8, 1965, subject to approval by the Board of Governors. Previous consideration of this matter by the Board had included an informal meeting in executive session with President Hickman.

The proposed appointment was discussed further in the light of all of the information available to the Board, both orally and in written form, concerning Mr. Hoy, and the conclusion reached was that the record did not demonstrate sufficient executive qualifications to enable Mr. Hoy to serve with effectiveness in the position of First Vice President of a Federal Reserve Bank. Accordingly, it was understood that a letter to Chairman Hall would be prepared for Chairman...
Martin's signature stating the grounds on which the Board had decided not to approve Mr. Hoy's appointment as First Vice President. A copy of the letter sent to Chairman Hall under date of November 3, 1965, is attached as Item No. 5.
UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of

VIRGINIA COMMONWEALTH CORPORATION,
Richmond, Virginia,

for approval of the acquisition of voting
shares of First National Bank of Vienna
Vienna, Virginia.

ORDER EXTENDING TIME FOR
ACQUISITION OF BANK SHARES

By Order dated August 27, 1965, the Board of Governors, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(a)(2)), and section 222.4(a)(2) of Federal Reserve Regulation Y (12 CFR 222.4(a)(2)), approved an application by Virginia Commonwealth Corporation, Richmond, Virginia, a registered bank holding company, for the Board's prior approval of the acquisition of more than 80 per cent of the voting shares of First National Bank of Vienna, Vienna, Virginia; and said Order was made subject to the proviso "that the acquisition so approved shall not be consummated . . . (b) later than three months after said date [of Order];" and

WHEREAS, Applicant has requested an extension of the time within which the approved acquisition may be consummated; and it appearing to the Board that reasonable cause has been shown for the extension of time
requested, and that such extension would not be inconsistent with the
public interest;

IT IS HEREBY ORDERED, that the Board's Order of August 27, 1965,
as published in the Federal Register on September 4, 1965 (30 F. R. 11362),
be and hereby is amended so that the proviso relating to the date by
which the acquisition approved shall be consummated shall read: "(b) later
than February 27, 1966."

Dated at Washington, D. C., this 13th day of October, 1965.

By Order of the Board of Governors.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Research project on foreign operations of American banks

More than ten years have elapsed since the completion of the Neal Report on Foreign Operations of American Banks, the last comprehensive investigation of these operations conducted by the System. That report was directed broadly to the question of making American banking institutions more useful instruments for encouraging and facilitating world trade and investment and more particularly, to the ways by which changes in Board regulations and policies might allow Edge and Agreement corporations to contribute to that end.

Since then, the character and extent of foreign lending by American banks and the range of international activities undertaken by them have undergone a remarkable change and these operations are now of a size unimaginined a decade ago. More banks are now engaged in foreign lending on a significant scale, more banks have foreign branches and Edge subsidiaries, term lending practices have been adapted to the needs of foreign borrowers, and U.S. banks have become active participants in international money market transactions. In the interim, too, a substantial deficit emerged and has persisted in the U.S. balance of payments to which outflows of credit and capital by or through American banks have contributed importantly.

Numerous questions have arisen in recent years regarding the role of U.S. banks in financing U.S. foreign trade, their importance in channeling credit and capital abroad, and the nature of and the influences bearing on their lending to foreigners. Also, the rapidity of expansion of foreign
lending has raised questions about the impact of this development on the structure and soundness of the banks involved.

**Proposed study.** A study is proposed which would provide a broad scale review and examination of foreign operations of member banks as presently conducted through head offices, foreign branches, subsidiaries. A prime objective of the study would be to enlarge present knowledge and understanding of these operations as they bear on the external payments position of the United States, including their role in the financing of U.S. foreign trade and their contribution to flows of capital to and from the United States. To assist the Board in carrying out its supervisory and examining responsibilities, another objective would be to assess the types, quality, and conditions of credit extended to foreigners as compared to credit extended to domestic borrowers, the exposure of the banks involved to credit and exchange risks, and the possible regulatory problems posed by the growing inter-relationships between U.S. and foreign banking institutions. A further aim of the study would be to determine what information about these activities is regularly needed by the Board, to appraise existing data and information by that standard, and to make recommendations for improving or extending that information as required.

The following outline presents in somewhat greater detail the scope and content of the study as it is now envisaged.

I. Foreign operations in American banks

This portion of the study would focus on the institutional and organizational arrangements relating to foreign activities of member banks and how these have evolved in
recent years. The diffusion of foreign activities among banks, the degree of involvement of individual banks, the internal organization of banks for the conduct of their foreign operations including methods of control of foreign branches and subsidiaries, and the profits and earnings experience of these operations would be among the topics investigated.

II. Character of foreign operations

A. Activities of foreign departments

A principal object in this part would be to provide a detailed analysis of the direct lending to foreigners by banks in the United States -- the forms it takes, the characteristics of the borrower, the purpose of the loan in so far as this is possible, and the terms and conditions on which credit is extended. For this purpose, loans of Edge corporations organized by non-New York banks to carry out international business in New York would be consolidated with those of their parent banks. Relationships between foreign lending and foreign deposit business would be explored to the extent they exist, as would connections between foreign lending and domestic customer relations. Another question to be investigated would be bank practices with respect to the allocation of loan funds between domestic and foreign customers. The analysis would be carried out at different levels of aggregation to expose differences
in practice among banks. The broad purpose of the analysis would be to furnish additional insights into the nature and sources of foreign demands for credit from this country, to ascertain more precisely the contribution of this lending to the financing of U.S. exports, and to shed light on the criteria employed by banks in extending credit to foreigners.

B. Activities of foreign branches

Investigation of the activities of foreign branches would focus on the reasons behind the continuing rapid growth of these branches, the nature of the business conducted by them (characteristics of borrowers, sources of deposits, etc.), and the relation of branch activities to head office lending to foreigners. Also, particular attention would be devoted to transactions between branches and head offices in view of their importance to balance of payments developments and to the Euro-dollar activities of the branches, including their consequent exposure to credit and exchange risks. Possible variations in branch activities among banks and among countries/areas would be explored and comparisons would be sought between the activities and development of branches of American banks and those of other foreign banks in the countries in which they are located.

C. Subsidiaries

The major interest in the operations of subsidiaries of American banks centers on the equity investments of Edge
and Agreement corporations. A detailed analysis of these investments would be conducted, both in the aggregate and by individual corporation, with the aim of illuminating the evolving character of these investments, the relation of these investments to the loan or other activities of the corporation or its parent bank, the degree of influence of the corporation on the management of the companies in which an equity investment is held, and the relations between the corporation (or its parent) and other participants in these investments. (Loan activities of these subsidiaries would for the most part be analyzed together with the loan portfolios of the parent bank, as noted above.)

III. Information on foreign operations

Existing data and information sources on the foreign operations and activities of American banks consist of Treasury foreign exchange forms, call reports, weekly reporting member bank statements, I.E.T. and VFCR reports, examination reports, and detailed reports on the equity investments of Edge and Agreement corporations. These data vary widely in comprehensiveness, coverage and timeliness. The third part of the study would consist of a critical appraisal of these sources, taking into account the information developed in other parts of the study, particularly that on the characteristics of foreign lending. One aim would be to
lay the groundwork for revision of the call report, when that proves feasible, and hence other recurring statistical reports on banking activity so as to enable a better integration of foreign lending into analysis of banking and credit developments. An evaluation of examination procedures and reports would be made to determine whether this source of information is being adequately exploited in bringing trends and possible problem areas in foreign operations to light and to the attention of the Board in the exercise of its supervisory responsibilities.

Implementation. The first step to be taken in the conduct of the study will be to design a detailed questionnaire to be used in a statistical survey of foreign lending and deposit activities of member banks. When these preparations are completed, the questionnaire will be pretested through consultation with selected banks after which the survey would be made operational. A second step, which will proceed simultaneously with the first, will be the preparations for obtaining, mainly through interviews with the banks, information about institutional arrangements and other aspects of foreign operations not susceptible to statistical inquiry. A further planning step will be to devise means by which activities of foreign branches can be effectively surveyed, utilizing information available at head offices and to be obtained by visits to selected branches overseas.

As these further detailed planning steps are being taken, the analysis of the investments of Edge and Agreement corporations will be
started. Information presently available at the Board on these investments is so complete as to form the basis for most of the analysis of their activities and will allow this analysis to be conducted more or less independently of other parts of the study. Should additional information be found necessary to the understanding of some of the complex arrangements surrounding these investments or of the operations and development of these corporations, visits to some of the corporations and subsidiaries would then be planned.
Dear Sir:

For some time the Board has felt the need for a comprehensive and critical re-examination of the foreign operations of member banks as they relate to the balance of payments problem and to the Board's supervisory and examining responsibilities. The Board asked Governors Mitchell (Chairman), Shepardson, and Maisel to explore and recommend a framework for the conduct of such a study, and the enclosed statement on the objectives and scope of the research project has been prepared under their supervision. Mr. Frederick R. Dahl of the Board's staff has been charged with planning and directing such a study and is proceeding with further detailed planning along the lines indicated in the enclosed statement, under the guidance of this Committee.

The Board has asked that a copy of the statement on the objectives and scope of the study be sent to each of the Federal Reserve Bank Presidents at this time, and further information will be transmitted as detailed planning progresses in coming weeks. It will be noted that, in addition to participation by various Divisions of the Board's organization, the conduct of the project will require the support of the Reserve Banks in a number of ways, including assistance in obtaining information from and establishing contact with commercial banks active in foreign operations.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.
Mr. E. H. Galvin, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco, California 94120.

Dear Mr. Galvin:

The Board of Governors does not approve the appointment of Donald Thompson as an assistant examiner for the Federal Reserve Bank of San Francisco. This denial, reached after consideration of all available information about Mr. Thompson, is based on the conclusion that Mr. Thompson does not appear to possess those qualifications necessary for success and progress in the examination department of a Federal Reserve Bank. Mr. Thompson is reported to lack credit acumen, is said to be unable to say "no", and for one with about 25 years of bank experience, displayed unusually poor judgment by extending loans to his friends when placed in a position of responsibility. Two other references state that Mr. Thompson would not make a good salesman. While it is true that he is not being considered for a position as a salesman; nevertheless, examining is to some degree a selling job. Moreover, many of the qualifications necessary if one is to succeed as a salesman are also required for success in other careers.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
PERSONAL AND CONFIDENTIAL

Mr. Joseph B. Hall, Chairman,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio 44101.

Dear Joe:

Your letter of July 15, 1965 reported the appointment by the Board of Directors of your Bank of Mr. John J. Hoy as First Vice President for the five-year term commencing March 1, 1966 and recommended the approval by the Board of Governors of this appointment. Since then, Brad Hickman has furnished the Board with additional information regarding the reasons for Mr. Hoy's selection, and he also met with the full Board in executive session on August 18 to discuss the proposal.

The Board has given detailed consideration to this proposal on a number of occasions. During these discussions it has reviewed all of the information available to it regarding Mr. Hoy, including that presented in your letter and in one from Mr. Hickman, as well as comments made by the latter when he met with the Board. The Board has decided not to approve Mr. Hoy's appointment as First Vice President.

In reaching this decision, the Board gave particular consideration to Mr. Hickman's comments on the executive qualifications needed in the First Vice President—a need with which the Board unanimously agrees. Without in any way reflecting on Mr. Hoy's performance in the assignments given to him over the years, he has not, in the Board's opinion, demonstrated the qualifications that would enable him to serve most effectively as the First Vice President and to build up the importance of that position both within and outside the Bank.

The Board appreciates the difficulty that your Bank has had in finding suitable candidates to succeed Mr. Fink as First Vice President, but you may be sure that it will be prepared to consider other proposals that you may wish to submit.

Sincerely yours,

Wm. McC. Martin, Jr.