

Minutes for November 8, 1965

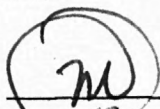
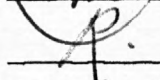
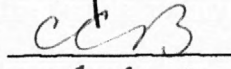
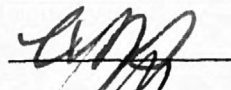

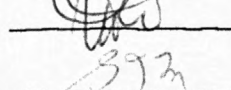
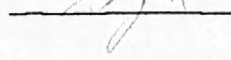
To: Members of the Board

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, November 8, 1965. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Holland, Adviser to the Board
 Mr. Molony, Assistant to the Board
 Mr. Fauver, Assistant to the Board
 Mr. Hackley, General Counsel
 Mr. Brill, Director, Division of Research and Statistics
 Mr. Solomon, Director, Division of Examinations
 Messrs. Goodman, Leavitt, and Smith, Assistant Directors, Division of Examinations
 Messrs. Forrestal and Plotkin, Senior Attorneys, Legal Division
 Mr. Egertson, Supervisory Review Examiner, Division of Examinations
 Mr. Poundstone, Review Examiner, Division of Examinations
 Mr. Sidman, Accountant-Analyst, 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 Girard Trust Bank, Philadelphia, Pennsylvania, approving an extension of time to establish a branch at 3549 Walnut Street.	1
Letter to Chase Manhattan Overseas Banking Corporation, New York, New York, interposing no objection to Brasilar-Administracao e Participacoes Limitada, Rio de Janeiro, Brazil, acquiring shares of Banco Lar Brasileiro S.A., Rio de Janeiro.	2

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Item No.

Letter to Farmers State Bank of Buffalo, Buffalo, Illinois, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	3
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Letter to The First State Bank, Hawkins, Texas, approving an extension of time within which to withdraw from membership in the Federal Reserve System.	4
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Reports on competitive factors. Unanimous approval was given to the transmittal to the Comptroller of the Currency of a report on the competitive factors involved in the proposed consolidation of United States National Bank in Johnstown, Johnstown, Pennsylvania, with Cambria County National Bank, Carrolltown, Carrolltown, Pennsylvania. The conclusion read as follows:

The proposed consolidation of the United States National Bank in Johnstown with Cambria County National Bank, Carrolltown, would eliminate some existing and all potential competition between them. Consummation of the transaction would further the concentration of banking resources in the now largest bank operating in the areas involved in this proposal. The effect of the consolidation on competition would be adverse.

A report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of Peoples Bank, Los Angeles, California, into Manufacturers Bank, also of Los Angeles, was held over for further consideration by the Board, it being understood that in the meantime the Division of Examinations would endeavor to obtain information on reasons why applications by Manufacturers Bank for a branch in Beverly Hills were twice denied by bank supervisory

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authorities. (The San Francisco Reserve Bank had suggested that the applicant bank perhaps contemplated using the proposed merger as a vehicle to gain the same advantage that would have accrued to it through establishment of the branch.)

Amendment of forms contained in Regulation F. There had been distributed a memorandum from the Legal Division dated November 3, 1965, advising that the provisions of Regulation F, Securities of Member State Banks, that appeared to have caused the most uncertainty were those relating to disclosure of loans made by a bank to its officers, directors, principal stockholders, and their associates. More inquiries had been received with respect to this subject than any other with the exception of financial statements. It was believed that the problem would become accentuated during the first quarter of 1966 when registrant banks would have to send proxy solicitation statements to their shareholders for the first time, in conformity with the requirements of Regulation F.

It was recommended that proposed amendments to Item 12 of Form F-1 (Registration Statement) and Items 7(e) and 7(f) of Form F-5 (Proxy Statement) be published in the Federal Register with an invitation for comments by interested persons, with the objective of adopting amendments prior to the end of 1965.

The principal effects of the proposed amendments were as follows:

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(1) It would be indicated more clearly that a transaction involving a director of a bank need not be reported where the only "interlock" was that the director was a director, officer, and/or less than 10 per cent stockholder of the other party to the transaction. This would not represent any substantive change from the present regulation.

(2) Disclosures of loans to corporate insiders, the principal transactions that must be reported, would become subject to more definite tests, such as size. A loan that met all of the conditions of the specific exemptive provisions would not be required to be disclosed; if it did not, it would prima facie be reportable.

(3) An item of the proxy rules that related in a general way to disclosure of the indebtedness would be amended in view of the specific provisions described in (2). In the future this item would only require disclosure of liability arising from "insider trading" in violation of section 16 of the Securities Exchange Act of 1934.

In reviewing the proposals, Mr. Plotkin brought out that the proposed amendments had been discussed with the staff of the Securities and Exchange Commission and the staff of the Federal Deposit Insurance Corporation. The latter had recommended to their principals that similar amendments to that agency's regulation applicable to nonmember insured banks be published for comment. However, it was not certain that action by the Board of Directors of the Corporation to authorize publication of such proposed amendments could be expected since one director (the Comptroller of the Currency) had abstained from voting on the adoption of the Corporation's original regulation and a second directorship was vacant. The Corporation's directors were understood to have a meeting scheduled for this Wednesday, and the outcome would not be known until that time.

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No reservations were expressed by members of the Board regarding the proposed amendments to Regulation F forms, although a question was raised about the wording of one of the proposed amendments. This matter was referred to the Legal Division for clarification of language.

In view of the situation in regard to the Federal Deposit Insurance Corporation, a suggestion was made by Governor Robertson that the Board authorize the publication of the proposed amendments for comment, with the understanding, however, that if the Board of Directors of the Corporation did not authorize similar action on the Corporation's regulation the publication of the Board's proposed amendments would be withheld and an effort made to work out the problems involved on an interpretive basis. It was pointed out that in the latter event uniformity could be preserved if the Corporation also issued interpretations.

Governor Robertson's suggestion was adopted unanimously as a basis of procedure.

Messrs. Goodman, Forrestal, Plotkin, Egertson, Poundstone, and Sidman then withdrew from the meeting.

17th Street National Bank. There had been distributed a memorandum from the Division of Examinations dated November 1, 1965, informing the Board of recent developments related to borrowings by the 17th Street National Bank of Denver, Colorado, from the Denver Branch, Federal Reserve Bank of Kansas City. Such borrowings had been practically

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continuous since May 29, 1964. At the time of the Division's memorandum to the Board of June 18, 1965, it had appeared, for reasons stated therein, that the member bank's affairs might have taken a turn for the better, but information received from the Kansas City Reserve Bank in its report of September 30, 1965, on member bank borrowing indicated that the situation had deteriorated. The member bank's current indebtedness stood at about \$270,000 compared with a \$175,000 indebtedness on June 30, 1965. Its total loans continued to be in excess of deposits, its operating statements were showing a deficit, its loan portfolio was of poor quality, its president was inexperienced in banking, and its operating staff was unfamiliar with credit administration. At each renewal of borrowing, or on the occasion of each request for an increase in the line of credit, it appeared to become increasingly difficult for the bank to find collateral to cover the advances made. The Comptroller of the Currency reportedly was trying to salvage the situation by efforts to interest other parties in acquiring the bank.

There had also been distributed copies of a letter dated November 1, 1965, from the Vice President in charge of the Denver Branch to the Regional Comptroller of the Currency in Denver informing him of the situation, as a matter of record, and inviting any comments that would be helpful to the Reserve Bank in acting on such further requests for credit as might be received from 17th Street National Bank.

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After comments on the situation by Mr. Solomon, Governor Robertson expressed the view that this was a serious case, one that could easily lead to an incident such as occurred with regard to San Francisco National Bank, San Francisco, California. He felt that the Board should make known its interest by sending a letter to the Comptroller of the Currency expressing concern about the Denver bank, not because of the System's position as a lender to the bank but because of the indications of serious trouble in the bank. In such a letter the Board could point out, for example, that the bank's loans continued to be in excess of deposits and that no examination of the bank apparently had been made since January of this year. The Board could indicate that it would like to be advised of any corrective actions of a supervisory nature that the Comptroller intended to take.

Governor Balderston suggested that the essential question was whether to continue financial assistance in a situation of this kind. In the San Francisco case he had felt previously that the Federal Reserve should not be responsible for bringing the bank to an early end. However, the fact that the System was a preferred lender had resulted in eventual injury to depositors; this was the result of trying to salvage a bank that apparently could not be salvaged. In the Denver case the Federal Reserve already had much of the good collateral that the bank was able to offer. The longer the System kept lending in an effort to avoid the closing of the bank, the less the

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depositors might ultimately get out of it. He was concerned that those at a high level in the three Federal banking agencies share in the responsibility. It was not a pleasant thing to say that the Federal Reserve would not go any further, thus probably pushing the bank into liquidation. The question of closing the institution was, of course, the immediate responsibility of the Comptroller. He was fearful, in summary, of anything that stopped short of action at the top level. The Board could write letters, but time could elapse without action, with every week perhaps lessening the chances for ultimate recovery by the depositors.

Governor Robertson replied that he thought the System would be justified in continuing its financial assistance provided effective steps of a corrective nature were being taken inside the bank, such as refusal to make more loans of poor quality and liquidation of existing loans. If it could be determined that a salvaging of the bank was not possible, he would agree with Governor Balderston, but it might be possible to salvage the bank by such means as putting in a conservator, preventing further faulty use of depositors' funds, and pursuing a vigorous collection policy on outstanding loans.

Governor Balderston repeated that he would like to go beyond simply putting the Comptroller on notice. He would like to know from the Comptroller the answer to the question Governor Robertson had posed. If the Comptroller advised that he was not going to undertake

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corrective action, the fate of the bank's depositors, including future depositors, would be partly the System's responsibility.

Governor Maisel noted that Federal Reserve advances to the bank had increased recently, and he inquired about the procedures the Reserve Bank was following.

Mr. Solomon replied that there was a constant turnover of collateral, of course, as loans were paid off and new loans were made. As new collateral came in, it was appraised by a Reserve Bank committee established for this purpose that included directors of the Denver Branch. This committee reviewed the collateral and judged how much could properly be advanced against it.

Governor Maisel asked if he understood, then, that the Reserve Bank was attempting to provide the maximum amount of loans on the available collateral, and Mr. Solomon said this was right. In his opinion the bank would have closed already except for the assistance extended by the Reserve Bank.

Governor Shepardson asked whether the Reserve Bank could impose restrictions on the member bank's operations, and Mr. Solomon replied that thus far the restrictions had been in the form of determining whether to accept the collateral that was tendered.

In further discussion Mr. Holland outlined steps that had been taken in similar cases by other Reserve Banks. He also described the

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consensus of Reserve Bank lending officers earlier this year regarding the attitude that should be displayed by a Reserve Bank's discount window in situations of this kind.

Governor Robertson expressed the view that the System, in its role as lender of last resort, should not take over the function of supervision in the case of a national bank. However, the System should insist that the supervisor was performing adequately, and it had a right to be advised of everything being done to keep the borrowing bank solvent.

Governor Shepardson inquired about the possibility of the Federal Reserve examining the Denver bank or putting a conservator in the bank. On the first question Governor Robertson, although acknowledging that the Federal Reserve had the power to examine, felt that such a step should be taken only on the basis of information that the Comptroller was not doing an adequate job of supervision. As to placing a conservator in the bank, the System did not have the statutory power.

The discussion concluded with an understanding that a letter to the Comptroller along the lines suggested by the foregoing discussion would be prepared for the Board's consideration.

Messrs. Brill, Holland, Leavitt, and Smith then withdrew from the meeting.

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Director appointments. It was agreed to ascertain whether Don K. Price, Jr., Dean of the School of Public Administration, Harvard University, would accept appointment, if tendered, as a Class C director of the Federal Reserve Bank of Boston to replace James McCormack, who had resigned, with the understanding that if Mr. Price would accept the appointment would be made. If Mr. Price was not available, it was agreed that similar steps should be taken with regard to Stanley F. Teele, Treasurer of Amherst College.

It was agreed to ascertain whether Kenneth H. Hannan, Executive Vice President of Union Carbide Corporation and currently a Class B director of the Federal Reserve Bank of New York, would accept appointment, if tendered, as a Class C director of the Bank for the three-year term beginning January 1, 1966, with the understanding that if Mr. Hannan would accept the appointment would be made, and that he would be appointed Deputy Chairman of the Bank for the year 1966. Since Mr. Hannan would have already served six years as a Class B director by the end of this year, it was understood that the action taken by the Board constituted an exception to the normal policy of rotation.

The Board also noted certain questions that had come up relating to the eligibility for service as a Class C director of Raymond Rebsamen, Chairman of the Federal Reserve Bank of St. Louis.

The first question, raised through the Reserve Bank, related to the fact that Chairman Rebsamen was serving as president of a life

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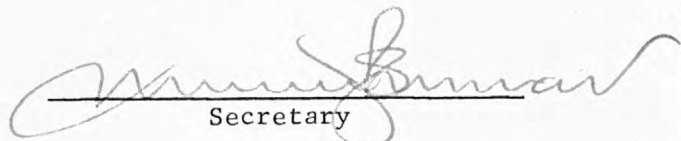
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insurance company and as a director of an open-end mutual fund. His duties with the insurance company reportedly had to do primarily with policy considerations and not with operations. The mutual fund was reported to be operated and managed under contract by another corporation with which Mr. Rebsamen had no connection as a stockholder or otherwise. In a distributed memorandum dated November 1, 1965, the Legal Division pointed out that on the basis of the facts presented Mr. Rebsamen would not be legally disqualified from serving as a Class C director. Accordingly, the Board was free to exercise its judgment in determining whether the business connections in question were likely to be incompatible with his service as a Class C director.

The second question related to the fact that at a recent hearing before the Comptroller of the Currency on an application for a national bank charter in Jacksonville, Arkansas, it had developed that while Mr. Rebsamen did not own stock in the existing State bank in the same city, his children owned more than 50 per cent of the bank's stock. The president of the bank had stated that the children did not know they owned the stock and that he voted the stock for them.

It was understood that Mr. Hackley would furnish to Chairman Martin such facts as could be ascertained on the second question and that Chairman Martin would then discuss the matter with Chairman Rebsamen.

The meeting then adjourned.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
11/8/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 8, 1965



Board of Directors,
Girard Trust Bank,
Philadelphia, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to July 27, 1966, the time within which Girard Trust Bank, Philadelphia, Pennsylvania, may establish a branch at 3459 Walnut Street, Philadelphia, Pennsylvania.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 8, 1965



Chase Manhattan Overseas Banking Corporation,
1 Chase Manhattan Plaza,
New York, New York. 10005

Gentlemen:

Reference is made to your letter of September 30, 1965, transmitted through the Federal Reserve Bank of New York, which referred to previous correspondence between the Board of Governors and your Corporation regarding the acquisition of ordinary voting shares and preferred shares of Banco Lar Brasileiro S.A., Rio de Janeiro, Brazil, ("Banco Lar") by Brasilair-Administracao e Participacoes Limitada ("Brasilair"), your wholly-owned subsidiary in Rio de Janeiro.

It is noted that, in the absence of a market for shares in Brazil, it is not practicable to make an offer for a specific cruzeiro amount of the preferred shares and that it is proposed that Brasilair seek to acquire at least 51 per cent of the outstanding preferred shares by direct solicitation from individual shareholders, stockbrokers, etc. It is understood that Brasilair intends to deviate from its original program by engaging in active solicitation for the acquisition of 51 per cent of the outstanding preferred shares of Banco Lar and, if sufficient cruzeiros have not been accumulated by Brasilair to complete the program, by having Brasilair borrow cruzeiros from time to time if and when the need arises.

In the circumstances, the Board of Governors interposes no objection to Brasilair acquiring 51 per cent of the presently outstanding preferred shares of Banco Lar.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3
11/8/65



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 8, 1965

Board of Directors,
Farmers State Bank of Buffalo,
Buffalo, Illinois.

Gentlemen:

The Federal Reserve Bank of Chicago has forwarded to the Board of Governors Cashier Loren C. Shanle's letter dated October 6, 1965, together with accompanying resolutions dated October 6, 1965, signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of withdrawal.

The Board of Governors waives the requirement of six months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of Chicago of the Federal Reserve Bank stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon. Under the provisions of Section 208.10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date the notice of intention to withdraw from membership was given.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of Chicago.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 8, 1965

Board of Directors,
The First State Bank,
Hawkins, Texas.

Gentlemen:

The Board of Governors of the Federal Reserve System extends by 30 days, to November 26, 1965, the time within which The First State Bank, Hawkins, Texas, may withdraw from membership in the Federal Reserve System.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

