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Minutes for November 9, 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

ME  
R

Gov. Robertson

Gov. Balderston

CCB

Gov. Shepardson

SSS

Gov. Mitchell

MM

Gov. Daane

DD

Gov. Maisel

SM

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, November 9, 1965. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Balderston, Vice Chairman  
Mr. Robertson 1/  
Mr. Shepardson  
Mr. Maisel

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Holland, Adviser to the Board  
Mr. Molony, Assistant to the Board  
Mr. Cardon, Legislative Counsel  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Farrell, Director, Division of Bank Operations  
Mr. Solomon, Director, Division of Examinations  
Mr. Johnson, Director, Division of Personnel Administration  
Mr. Kakalec, Controller  
Mr. Sammons, Associate Director, Division of International Finance  
Mr. Irvine, Adviser, Division of International Finance  
Messrs. Goodman, Leavitt, and Smith, Assistant Directors, Division of Examinations  
Mr. Young, Senior Attorney, Legal Division  
Mr. Dahl, Chief, Special Studies and Operations Section, Division of International Finance  
Mr. Egertson, Supervisory Review Examiner, Division of Examinations  
Mr. Goodfellow, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on November 5, by the Federal Reserve Bank of Minneapolis on November 6, and by the Federal Reserve Bank of Boston on November 8, 1965, of the rates on discounts and advances in their

1/ Withdrew from meeting at point indicated in minutes.

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existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Foreign investment (Item No. 1). As recommended in a distributed memorandum from the Division of Examinations dated October 21, 1965, unanimous approval was given to a letter to Continental International Finance Corporation, Chicago, Illinois, granting consent to the acquisition of shares of Continental and Overseas Investments N.V., Amsterdam, The Netherlands. A copy of the letter is attached as Item No. 1.

Report on competitive factors. Following up on the discussion at yesterday's meeting with regard to 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, Mr. Leavitt related information received from the Corporation regarding denial by the State authorities in 1963 and 1964 of applications by Manufacturers Bank to establish a branch in Beverly Hills. Since information had not yet been received from the San Francisco Reserve Bank as to why the applications were denied, the report on competitive factors was held over for further consideration after such information had become available.

Question under Regulation O (Items 2 and 3). There had been distributed a memorandum from the Legal Division dated October 29, 1965, discussing a question raised through the Federal Reserve Bank of Dallas as to whether the restrictions of section 22(g) of the Federal Reserve

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Act and the Board's Regulation O, Loans to Executive Officers of Member Banks, applied to loans made by a member bank to executive officers from funds held in trust by the bank under an employee profit-sharing plan. The question grew out of an examination of Victoria Bank and Trust Company, Victoria, Texas. One of the important provisions of the bank's profit-sharing plan was that a participating employee was extended the privilege of borrowing for worthwhile purposes up to the amount of his vested interest.

The question involved a Board interpretation, published in 1936, to the effect that Regulation O applied to loans made to executive officers of member banks from trust funds administered by such banks. However, the Legal Division felt that the dangers against which section 22(g) was directed were not present with respect to loans made from a trust fund established under a profit-sharing plan. It recommended that the 1936 interpretation be modified to permit loans of the type described without regard to the limitations imposed by section 22(g) and Regulation O.

After discussion the interpretation proposed by the Legal Division was approved unanimously, it being understood that in the view of the Legal Division this matter could be handled by interpretation and an amendment to Regulation O was not required.

A copy of the letter sent to the Federal Reserve Bank of Dallas pursuant to the foregoing action is attached as Item No. 2. Attached as Item No. 3 is a copy of the interpretation published in the Federal Register.

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Request for technical assistance. A distributed memorandum dated November 4, 1965, from Mr. Young, Senior Adviser to the Board and Director, Division of International Finance, stated that the International Monetary Fund had been requested to recruit a director for the research department of the Bank of Sierra Leone. The appointment would initially be for a period of one year, which period could be extended for another year by mutual agreement of the parties concerned, and the Governor of the Bank of Sierra Leone had expressed an interest in securing someone from the Federal Reserve System. From a list of names of Reserve System staff previously furnished by the Board to the Monetary Fund as possible candidates for technical assistance assignments, the Fund had suggested that three such persons might be suitable for the assignment currently under consideration. (One of these had recently resigned to accept an overseas appointment with the State Department.) In addition, the Board's staff had mentioned in the memorandum two other Reserve Bank officers who might be considered.

After discussion the Division of International Finance was authorized to ascertain the availability of the persons suggested.

One of the members of the Board suggested, in this connection, that in arranging assignments of this kind appropriate consideration be given to persons from Federal Reserve Banks other than New York, with a view to spreading out the benefits of the experience derived from such assignments.



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Messrs. Sammons, Irvine, Goodman, Dahl, Egertson, and Goodfellow then withdrew from the meeting.

Payroll plan of Cleveland Bank. At the meeting on Friday, November 5, the members of the Board were informed concerning a plan that the Federal Reserve Bank of Cleveland had developed, but not yet placed in effect, for handling its payroll under which the total payroll of the Bank on any given pay date would be deposited in a single commercial bank and all officers and employees would then obtain their pay by: (a) withdrawing in cash from the bank of deposit; (b) transferring funds from that bank to the bank of their choice; or (c) using an account with the bank in which the deposit was made by the Reserve Bank. It had been understood that the plan, if adopted, would result in a substantial reduction in the cost to the Reserve Bank of handling its payroll.

In line with views expressed by members of the Board at the Friday meeting, Mr. Sherman had informed President Hickman that the Board was concerned about the adoption of any plan that would result in a single commercial bank receiving the entire payroll deposit. Even though all banks in Cleveland had an opportunity to bid for the account and even though the employees had assurance that they could withdraw their funds or transfer them immediately to another bank without cost, the Board believed that it would be unwise for a Reserve Bank to adopt a plan that included mandatory deposit of its entire payroll in a single commercial bank.

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Mr. Sherman now reported that he understood President Hickman was investigating the possibility of modifying the plan to permit the deposit of funds in any of the Cleveland banks that would cooperate. Under such a modification, the funds for each employee would be placed in any cooperating bank of his selection. It was understood that four of the six Cleveland banks had indicated that they would cooperate without any service charge to employees.

Against this background there had been distributed a draft of letter that the Board might want to send to President Hickman advising him that if the Reserve Bank was able to arrange with all or most of the Cleveland commercial banks to accept payroll funds on this basis, the Board would not object to adoption of such a plan. The letter would conclude with a statement that the Board would be glad to receive a detailed written report covering the proposed plan, along with a statement of advantages and disadvantages.

In discussion of the matter, question was raised by Mr. Johnson whether the Board would want to take a position regarding a matter of this kind involving the internal operations of a Reserve Bank. This might indicate, he observed, that all Reserve Banks would be expected to submit to the Board any changes contemplated in their payroll plans. He also pointed out that information was not presently available at the Board's offices concerning the payroll procedures followed by the respective Reserve Banks.

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Governor Robertson commented that it had been his understanding at the Friday meeting that the members present contemplated the Board's sending to each Reserve Bank a letter containing such views as the Board might care to express with respect to general principles pertaining to payroll procedures. He recalled also that it had been understood that the Board's staff would review and make recommendations concerning procedures followed with respect to disbursement of the Board's payroll.

On the last point Mr. Kakalec confirmed that a study was being made by the Controller's Office and that it would be presented shortly for the Board's consideration.

In further discussion of the Cleveland matter the Board members confirmed that they believed it would be unwise for a Reserve Bank to adopt a payroll plan that included mandatory deposit of its entire payroll in a single commercial bank. The further view was expressed, however, that it would not seem objectionable if payroll funds were deposited in all local banks that would cooperate and if the Reserve Bank's employees had the additional option of having a check delivered to them at the Reserve Bank. In the latter connection a view also was expressed that it would seem desirable for each Reserve Bank to have a window at which employees' checks could be cashed.

Question then was raised whether it was necessary for a letter to be written to President Hickman on the subject. The question was resolved in the negative, and it was understood that Mr. Sherman would advise President Hickman of the Board's views by telephone.



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Messrs. Johnson and Kakalec then withdrew from the meeting.

17th Street National Bank (Item No. 4). Pursuant to the understanding at yesterday's meeting there had been distributed for the Board's consideration a proposed letter to the Comptroller of the Currency regarding the 17th Street National Bank of Denver, Denver, Colorado, which had been borrowing from the Denver Branch of the Federal Reserve Bank of Kansas City almost continuously and in substantial amounts since May 29, 1964. After expressing concern about the indications of serious problems at the bank, the letter would conclude with a statement that the Board would like to receive as promptly as possible a full statement regarding the current condition of the bank, its prospects, and in particular any supervisory measures by the Comptroller's Office looking toward placing the bank on a sounder footing.

Chairman Martin commented that he had mentioned the matter at luncheon yesterday with Secretary of the Treasury Fowler and Under Secretary Barr and that Mr. Barr, in particular, took quite a strong position that the Federal Reserve might be vulnerable if it did not take whatever action it thought was required. The Chairman also said that he had attempted to get in touch with the Comptroller of the Currency but had found that he was out of the country. In the circumstances the Chairman expressed the view that the Board should make its letter as firm a record as seemed warranted.

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Governor Shepardson raised the question whether effective action on the part of the Comptroller's Office might be anticipated in the absence of the Comptroller. He also raised the question whether the Board's letter should not put the Comptroller's Office on notice that in the absence of a prompt and satisfactory reply the Federal Reserve would be prepared to move examiners into the bank to obtain full information.

Governor Robertson suggested that little could be done even if Federal Reserve Bank examiners went into the national bank and obtained information, for example, that the bank was actually insolvent. He observed that in a case of this kind the supervisory responsibility rested with the Comptroller, and he repeated the view he had expressed yesterday that a strong letter should be written to the Comptroller asking him what supervisory actions he had taken or proposed to take to put the bank in sound position. He would not, on the other hand, include any statement as to what actions the Federal Reserve might take.

In further remarks Governor Robertson said that as a lender the Federal Reserve could of course take whatever steps were possible to secure its advances. It could also refuse to extend further credits. But he would not want to cause a member bank to close merely for the reason that the Federal Reserve did not provide financial assistance.

The Federal Reserve could seek out good collateral or it could determine whether to grant credit on an unsecured basis, Governor Robertson added, but it could not require a member national bank to alter its

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operations from the point of view of the bank's overall soundness. In other words, the Federal Reserve was not in a position to take supervisory action. Instead, the proper channel ran from the Federal Reserve, as lender, to the supervisor (the Comptroller), and from the supervisor to the member national bank.

Possible modifications in the language of the proposed letter to the Comptroller were then suggested by Mr. Holland, and these proved generally acceptable to the members of the Board subject to certain reservations in one respect voiced by Governor Robertson.

Asked whether he anticipated that a letter along the lines now suggested would be likely to result in prompt action on the part of the Comptroller's Office, given the Comptroller's absence, Governor Robertson said it was his judgment that such a letter would obtain results. He again stated reasons why he felt it would be disadvantageous for the Federal Reserve to make any other move at this time, including the sending of Federal Reserve Bank examiners into the bank.

At the conclusion of the discussion unanimous approval was given to a letter to the Comptroller in the form attached as Item No. 4, with the understanding that copies would be sent to the Secretary of the Treasury, Under Secretary Barr, and the Chairman of the Federal Deposit Insurance Corporation.

Publication of pamphlet. As recommended in a memorandum dated November 5, 1965, from Mr. Brill, Director, Division of Research and

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Statistics, the Board approved the publication of a document entitled "U.S. Treasury Advance Refundings, June 1960 - July 1964," this being an analysis of the market impact of Treasury advance refundings prepared by Thomas R. Beard during the period he was employed by the Board under a temporary appointment from January 1964 to January 1965.

Michigan National Bank. There followed a meeting with Howard J. Stoddard, Chairman of the Board of Michigan National Bank, Lansing, Michigan, and the bank's counsel, James B. Alley, this meeting having been arranged at the request of Mr. Stoddard so that he and Mr. Alley might present reasons why the bank hoped that the Board would change the adverse position it had taken in a letter of September 8, 1965, to the Chairman of the Senate Banking and Currency Committee concerning bill S. 308, which would permit the establishment and operation of certain branches by Michigan National Bank.

Governor Robertson withdrew prior to this meeting in view of the fact that he had been associated with the Office of the Comptroller of the Currency at the time of the Comptroller's ruling in 1940 that prevented Michigan National Bank from operating a branch in Saginaw and three branches in Grand Rapids that were in operation as branches of the Saginaw National Bank and the First National Bank of Grand Rapids prior to their consolidation with Lansing National Bank under the name Michigan National Bank. Michigan National Bank claimed that the 1940 ruling was in error.

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Those who participated in the meeting with Messrs. Stoddard and Alley included Chairman Martin, Governors Balderston, Shepardson, and Maisel, and Messrs. Sherman, Kenyon, Hackley, Solomon, Leavitt, and Young (Legal Division) of the Board's staff.

Mr. Stoddard displayed and commented upon maps of Grand Rapids and Saginaw showing the locations of banking offices in those cities. These maps, in condensed form, were included in material distributed by Mr. Stoddard that included an explanation of S. 308, testimony relative to S. 2883 (a bill identical with S. 308 on which hearings were held before the Senate Banking and Currency Committee in 1964), and a statement by Mr. Alley in reference to S. 308. The distributed documents, copies of which have been placed in the Board's files, formed the basis for statements made at today's meeting by Mr. Stoddard and by Mr. Alley.

Following these statements, questions were invited by the Chairman.

Mr. Hackley said he assumed it was understood that this was purely a legislative question for the Congress to determine and that the Board would not be expected, in any event, to pass on the question whether another agency made a correct or incorrect interpretation of the law in 1940. Mr. Alley agreed that this was a matter for the Congress to determine and said Michigan National Bank felt that in the circumstances the Board should not oppose the enactment of the proposed legislation.



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Governor Balderston inquired whether the Congress had heard from the Michigan State authorities. Mr. Alley replied that they were against the bill unanimously and had gone on record to such effect, on the ground that this would violate the dual banking system. Mr. Alley did not agree that this had anything to do with the dual banking system; it was simply a bill to correct an error.

In regard to the position of former Comptroller Gidney, Mr. Alley said Mr. Gidney had stated that if it had not been for the passage of the 1945 State law restricting branch banking in Michigan he would have executed a nunc pro tunc order restoring the branches in question to Michigan National Bank. In the circumstances, however, Mr. Gidney had said that if Michigan National Bank would have a bill introduced he would support it, which he did.

Messrs. Stoddard and Alley stated that Michigan National had been assiduous in its efforts to correct the situation ever since the 1940 interpretation was issued. However, in the early 1940's it was not customary to sue the Comptroller of the Currency on anything, and the advent of World War II also was a complicating factor.

Mr. Hackley inquired if it was known whether there had been any other similar situations at the time, involving mergers and retention of branches, that might have involved allegedly erroneous interpretation of the law. Mr. Alley replied that to the best of his knowledge, after search, there were no similar cases.

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Mr. Stoddard asserted that Michigan National Bank had gotten caught in a political cross-fire in 1940, the nature of which he described, and that this influenced the Comptroller's interpretation. He did not think that the then Comptroller realized the effect over the years that this "political decision" would have.

Mr. Alley commented that the Michigan branch law passed in 1945 provided that a bank could have branches within 25 miles of the place where the bank operated. Michigan National, which was operating a branch in Saginaw, then brought suit in Federal court, but the court held that the word "bank" as used in the statute meant only the head office. The decision did not reach beyond that point. Later Mr. Gidney said he could not do anything, although he was convinced Michigan National was right, and suggested that the bank go to Congress for remedial legislation.

Chairman Martin indicated to Messrs. Stoddard and Alley that he respected the bank's efforts to correct what it considered to be an injustice. He raised the question, however, whether it might not have been appropriate for Michigan National to have taken a more firm stand at the time the original interpretation was made.

Mr. Stoddard responded by reciting certain political factors that in his judgment made it unfeasible for Michigan National to pursue the matter more vigorously at the time the interpretation was made.

The meeting then adjourned.

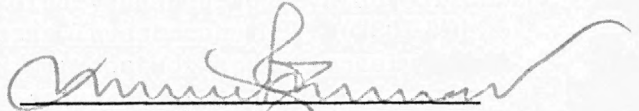
Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

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Memorandum from Mr. Sammons, Associate Director of the Division of International Finance, dated November 9, 1965, requesting that he and Mr. Young, Senior Adviser to the Board and Director, Division of International Finance, be authorized to attend a meeting in Ottawa, Canada, on Friday, November 19, 1965, of a joint committee established by agreement between the United States and Canadian Governments to consider problems arising between the two countries in the balance of payments field, particularly those created by the current U.S. balance of payments program.

Letter to the Federal Reserve Bank of San Francisco (attached Item No. 5) approving the appointment of Jon L. Scott as assistant examiner.

  
Secretary



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

3615  
Item No. 1  
11/9/65

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

November 9, 1965.

Continental International Finance Corporation,  
231 South LaSalle Street,  
Chicago, Illinois. 60690

Gentlemen:

As requested in your letter of October 1, 1965, the Board of Governors grants consent for your Corporation ("CIFC") to purchase and hold 50 per cent of the ordinary shares, par value Guilders 1,000 each, of Continental and Overseas Investments N.V. ("COIN"), Amsterdam, The Netherlands, at a maximum cost of approximately US\$3,250,000, provided such stock is acquired within one year from the date of this letter. In this connection the Board also approves the purchase and holding of such shares in excess of 10 per cent of CIFC's capital and surplus.

The Board's consent to the proposed purchase and holding of shares of COIN by CIFC is granted subject to the following conditions:

- (1) That CIFC shall not hold any stock in COIN if COIN or any subsidiary thereof at any time fails to restrict its activities to those permissible to a corporation in which a corporation organized under Section 25(a) of the Federal Reserve Act could, with the consent of the Board of Governors, purchase and hold stock, or if COIN or any subsidiary thereof establishes any branch or agency or takes any action or undertakes any operation in The Netherlands or elsewhere, in any manner, which at that time would not be permissible if COIN were a corporation organized under said Section 25(a);
- (2) That when required by the Board of Governors, CIFC will cause COIN or any subsidiary thereof (a) to permit examiners selected or auditors approved by the Board of Governors to examine COIN or any subsidiary thereof, and (b) to furnish the Board of Governors with such reports as it may require from time to time.

Continental International      -2-  
Finance Corporation

- (3) That any share acquisition or disposition by COIN be reported under Section 211.8(d) of Regulation K in the same manner as if COIN were a corporation organized under Section 25(a) of the Federal Reserve Act.

Subject to continuing observation and review, the Board suspends, until further notice, the provisions of sub-paragraph (1) of the second paragraph of this letter so far as they relate to restrictions on loans granted by COIN, or by subsidiary bank or banks of COIN, in the country in which organized or operating and in the currency of that country.

The foregoing consent is given with the understanding that the foreign loans and investments of your Corporation, combined with those of Continental Illinois National Bank and Trust Company of Chicago and Continental Bank International, including the investment now being approved, will not exceed the guidelines established under the voluntary foreign credit restraint effort now in effect and that due consideration is being given to the priorities contained therein.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.





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

3617  
Item No. 2  
11/9/65

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

November 9, 1965.

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

Dear Mr. Sullivan:

This is in response to your request for the Board's consideration of a question raised by Victoria Bank & Trust Company, Victoria, Texas, as to whether the restrictions of section 22(g) of the Federal Reserve Act and the Board's Regulation O apply to loans made by a member bank to executive officers from funds held in trust by the bank under an employee profit-sharing plan. It is understood that one of the important provisions of the trust arrangement is that a participating employee is extended the privilege of borrowing for worthwhile purposes up to the amount of his vested interest in the trust, and that all officers and employees of the bank may participate in the plan.

The question presented involves the Board's interpretation in the 1936 Federal Reserve Bulletin at page 324, to the effect that Regulation O applies to loans made to executive officers of member banks from trust funds administered by such banks.

The Board has reviewed its 1936 interpretation in the light of the facts presented by you, and has concluded that the views then expressed should be modified so as to permit loans of the type described without regard to the limitation imposed by section 22(g) and Regulation O. The underlying purpose of these limitations was to prevent executive officers from exerting improper influence in connection with loans made to them from deposits accepted from the public for prudent investment. The same dangers against which section 22(g) was directed are not present, insofar as the Board can discern, with respect to loans made from the trust fund established under the profit-sharing plan. The privilege of borrowing is extended to any employee who chooses to become a member and makes contributions to the fund. No member is extended any special treatment since each may borrow on the same terms and in an amount not exceeding his particular vested interest. In these circumstances it is difficult to perceive how an executive officer could exert improper influence.

Accordingly, the Board's 1936 interpretation is modified to the extent indicated above.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

## TITLE 12 - BANKS AND BANKING

Item No. 3

11/9/65

## CHAPTER II - FEDERAL RESERVE SYSTEM

## SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. 0]

## PART 215 - LOANS TO EXECUTIVE OFFICERS OF MEMBER BANKS

## Loans of Trust Funds

§ 215.106 Loan to executive officer from bank-administered profit-sharing trust fund.

(a) The Board of Governors has been requested to consider the question whether the restrictions of section 22(g) of the Federal Reserve Act and the Board's Regulation 0 apply to loans made by a member bank to executive officers from funds held in trust by the bank under an employee profit-sharing plan. It is understood that one of the important provisions of the trust arrangement is that a participating employee is extended the privilege of borrowing for worthwhile purposes up to the amount of his vested interest in the trust, and that all officers and employees of the bank may participate in the plan.

(b) The question presented involves the Board's interpretation in the 1936 Federal Reserve Bulletin at page 324, to the effect that Regulation 0 applies to loans made to executive officers of member banks from trust funds administered by such banks.

(c) The Board has reviewed its 1936 interpretation in the light of the facts presented, and has concluded that the views then expressed should be modified so as to permit loans of the type

described without regard to the limitation imposed by section 22(g) and Regulation O. The underlying purpose of these limitations was to prevent executive officers from exerting improper influence in connection with loans made to them from deposits accepted from the public for prudent investment. The same dangers against which section 22(g) was directed are not present, insofar as the Board can discern, with respect to loans made from the trust fund established under the profit-sharing plan. The privilege of borrowing is extended to any employee who chooses to become a member and makes contributions to the fund. No member is extended any special treatment since each may borrow on the same terms and in an amount not exceeding his particular vested interest. In these circumstances it is difficult to perceive how an executive officer could exert improper influence.

(d) Accordingly, the Board's 1936 interpretation as to the applicability of Regulation O is modified to the extent indicated above.

(12 U.S.C. 248(i). Interprets 12 U.S.C. 375a.)

Dated at Washington, D. C., this 9th day of November, 1965.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(Signed) Merritt Sherman

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Merritt Sherman,  
Secretary.

(SEAL)



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

3620

Item No. 4  
11/9/65

OFFICE OF THE CHAIRMAN

November 9, 1965.

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

Dear Jim:

As you know, the 17th Street National Bank of Denver, Denver, Colorado, which opened for business on April 23, 1963, has been borrowing heavily from the Denver Branch of the Federal Reserve Bank of Kansas City. Except for a short period in April 1965, the member bank has been borrowing from the Reserve Bank continuously and substantially since May 29, 1964. As you also know, this continued reliance upon Federal Reserve credit arises from the persisting serious problems within the 17th Street National Bank.

Certain developments early this year seemed to hold promise of improvement in the 17th Street National's affairs. At that time, there were indications that a large bank, which had a sizable financial interest in the stock of the Denver bank, might provide the latter with both financial and management assistance. About the same time a change was made in the top management of 17th Street National. However, since then, there apparently has been no appreciable improvement in the bank's condition and we understand that the large bank has elected to terminate its efforts to be of help in the situation. Meanwhile, the 17th Street National has been finding it increasingly difficult to provide collateral to support its borrowings from the Reserve Bank.

The Board is particularly concerned that continued credit extension on the part of the Federal Reserve should assist the development and execution of a program for placing the bank on a sound footing, and not simply permit a postponement of remedial actions with a possible resulting increase in the risk of loss to loyal depositors. In view of your statutory responsibilities with respect to this bank, the Board looks to your Office for the development of a suitable program of action.

The Honorable James J. Saxon.

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The Board understands that the subject member bank has not been formally examined by your Office since January 1965. So that the Federal Reserve System may be better able to formulate an appropriate program with regard to possible further applications from the member bank for credit assistance, the Board would like to receive from you, as promptly as possible, a full statement regarding the current condition of the 17th Street National Bank, its prospects, and, in particular, the supervisory actions being taken by your Office to deal with this situation.

Sincerely yours,

*Bill*

Wm. McC. Martin, Jr.

cc: Secretary Fowler, Treasury  
Under Secretary Barr, Treasury  
Chairman Randall, Federal Deposit  
Insurance Corporation





BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

3622

Item No. 5

11/9/65

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

November 10, 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 November 4, 1965, the Board approves  
the appointment of Jon L. Scott 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.