Minutes for November 26, 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 _____

Gov. Robertson _____

Gov. Balderston _____

Gov. Shepardson _____

Gov. Mitchell _____

Gov. Daane _____

Gov. Maisel _____

Minutes of the Board of Governors of the Federal Reserve System on Friday, November 26, 1965. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Robertson
Mr. Shepardson
Mr. Mitchell
Mr. Daane

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Holland, Adviser to the Board
Mr. Solomon, Adviser to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Messrs. Goodman and Leavitt, Assistant Directors, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. Furth, Consultant
Mr. Morgan, Staff Assistant, Board Members' Offices

Messrs. Koch, Partee, Axilrod, Bernard, Eckert, and Keir of the Division of Research and Statistics

Messrs. Sammons, Reynolds, and Baker of the Division of International Finance

Money market review. Mr. Bernard commented on developments in the Government securities market, after which Mr. Baker reported on conditions in foreign exchange markets. Mr. Sammons commented briefly on discussions with Canadian authorities looking toward arrangements that would contain the net outflow of U.S. funds to Canada in the coming year.

All members of the staff then withdrew except Messrs. Sherman, Kenyon, Cardon, Fauver, Hackley, Solomon (Examinations), and Leavitt, and Mrs. Semia and the following entered the room:

Mr. Farrell, Director, Division of Bank Operations
Mr. Hexter, Associate General Counsel
Mr. O'Connell, Assistant General Counsel
Messrs. Daniels and Kiley, Assistant Directors, Division of Bank Operations
Messrs. Heyde, Robinson, Sanders, and Smith of the Legal Division
Mr. Egertson, Supervisory Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of Cleveland and Richmond on November 24, 1965, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Distributed items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	Item No.
Letter to Bank of Fort Walton, Fort Walton Beach, Florida, approving its application for admission to membership in the Federal Reserve System.	1
Letter to the Federal Reserve Bank of San Francisco regarding the question whether the activities of a mortgage loan company proposed to be acquired by First Security Corporation, Salt Lake City, Utah, would be of such a nature as to qualify for exemption under section 4(c)(1) of the Bank Holding Company Act.	2

Applications of Brenton Companies (Items 3-5). There had been distributed drafts of orders and a statement reflecting the Board's approval on November 3, 1965, of the applications of Brenton Companies, Inc., Des Moines, Iowa, to acquire voting shares of Dallas County State Bank, Adel, Iowa, and Palo Alto County State Bank, Emmetsburg, Iowa.

The issuance of the orders and statement was authorized. Copies of the documents, as issued, are attached as Items 3-5.

Unpublished information regarding "general obligations." There had been distributed a memorandum dated November 19, 1965, from the Legal Division regarding a request from Covington & Burling, counsel for the Committee for Study of Revenue Bond Financing (an association of investment banking firms engaged in revenue bond underwriting), for access to "all unpublished material contained in letters, rulings, and opinions issued to commercial banks and other financial institutions relating to the Board's interpretation of the term 'general obligations of any State or of any political subdivision thereof' contained in R. S. 5136, . . . including such interpretations, opinions and rulings of other bank regulatory agencies which the Board has considered with regard to its interpretation of this provision, and in particular a ruling of the Comptroller of the Currency in 1932 with respect to bonds of the Port of New York Authority and a ruling of the Comptroller of the Currency dated October 23, 1934, with respect to the meaning of the term 'general obligations'." Subsequent to its request to the Board,

Covington & Burling had sent a letter to the Comptroller of the Currency (with a copy to the Board) on behalf of the Committee objecting to the provisions of his Investment Securities Regulation "insofar as they purport to authorize national banks to underwrite and deal in obligations issued by a State or political subdivision thereof, the payment of which is not secured by the general taxing power." That letter also indicated that Covington & Burling had asked the Comptroller for an "opportunity to examine unpublished rulings with respect to the definition of the term general obligations as used in 12 U.S.C. Sec. 24 and been denied such opportunity." The law firm's request to the Board apparently represented an effort to exhaust every possibility to examine information that might be useful to the client.

The memorandum noted that the Legal Division believed the unpublished information in the Board's files that the request called for would not be significantly beneficial to Covington & Burling in promoting its client's interests. The 1932 letter referred to in the request did not appear to be in the Board's records; certain other items of information were either available in Congressional testimony or dealt with facts as to which there was no dispute. The mere belief that the person requesting access to unpublished information would not find such information substantially useful was not always a sufficient reason to deny the request. It was considered significant in this instance, however, because a similar request had been denied by another Governmental agency

and the information sought related in part to the affairs of that agency. For these and other reasons cited in the memorandum, the Legal Division recommended that the request be denied. A draft letter attached to the memorandum would say that "In the circumstances, the Board considers that disclosure of its unpublished information on that subject might impede the Board's necessary collection of information and advice and lead to misinterpretations and misunderstanding as to the Board's policies and purposes. The Board also believes that access to the requested information probably would not be of significant value for the purpose you have in mind." The draft letter would end with the statement that "the Board concludes that the requested disclosure would not be in the public interest and, therefore, your request is denied."

During discussion it was agreed that the Board should not grant access to material that the law firm had been denied by the Comptroller. As to other items, staff comments indicated that literal compliance with the request would involve a laborious task of assembling and categorizing material.

Governor Robertson then asked if it would not be desirable to discuss the matter with the law firm, explaining the magnitude of the task and the unlikelihood that the material produced would be substantially useful.

Mr. Hexter responded that such an effort already had been made, but that the formal request nevertheless had been forthcoming, presumably

on the theory that the law firm had nothing to lose and that some result helpful for its purposes might be realized even though the outlook for benefits seemed doubtful. It seemed to the Legal Division that the situation justified the exercise of judgment as to whether the effort involved should be undertaken.

Governor Robertson expressed the view that nonetheless it seemed preferable to make another effort to handle the matter informally rather than to set down in writing a position that in effect refused to disclose information on the grounds that disclosure would involve a large task and that the information probably would not be of much use to the persons requesting it.

There was agreement with the approach suggested by Governor Robertson, it being understood that if Covington & Burling remained unwilling to accept an informal response to their request the matter would be brought back to the Board for further consideration.

Coin services for nonmember banks. There had been distributed a memorandum dated October 12, 1965, from Mr. Hackley, with an accompanying memorandum from Mr. Heyde, regarding the practices of Federal Reserve Banks in accepting orders for, and making shipments of, coin.

Under resolutions of the Presidents' Conference approved by the Board in 1936, most of the Federal Reserve Banks followed the practice of furnishing coin directly to nonmember banks only if the shipment had been ordered by a member bank and if the nonmember bank reimbursed the

Reserve Bank for the shipping charges. The Presidents' Conference, after discussion of this matter at its September 1965 meeting pursuant to the request contained in the Board's letter of August 16, 1965, voted 6 to 5 that the Reserve Banks should "in principle" accept orders for coin directly from nonmember banks, but also voted 7 to 4 that, in light of the current coin shortage, Reserve Banks that did not at present accept direct orders from nonmembers should not now be required to do so. A majority of the Conference "thought that such a move would aggravate the problem of equitable distribution of coin among commercial banks."

Since the Reserve Banks acted only as agents for the Treasury Department in coin distribution operations, question had arisen whether a Reserve Bank could properly refuse to accept direct orders from nonmember banks or require nonmembers to bear the expense of such shipments while at the same time it absorbed charges on coin shipments to member banks. Mr. Heyde's memorandum cited certain points of the history of coin distribution operations, which the Reserve Banks had taken over from the former sub-treasuries, bearing upon the intent of the instructions in the Treasury's pertinent circular (Treasury Circular No. 55, issued in 1920) that the Reserve Banks should "make an equitable and impartial distribution of available supplies of currency and coin in all cases." Mr. Hackley concurred in Mr. Heyde's opinion that the Reserve Banks, as a legal matter, should accept orders for coin directly

from nonmember banks, as they did from member banks, and in addition that member and nonmember banks should be treated alike in respect to charges for coin shipments. There was thus presented the question whether the Board would wish to rescind its 1936 letter. That question, of course, involved considerations of policy as well as interpretation of the Treasury's instruction to the Reserve Banks.

During comments supplementing the distributed memoranda, Mr. Hackley observed that unless the Treasury Department was aware of the variation in Reserve Bank practices and had no objection, it was his view that the Reserve Banks, in acting as agents for the Department, were not authorized to treat member and nonmember banks differently, either as to acceptance of orders or as to shipping charges. However, he would not suggest that the Board rescind its 1936 letter without first discussing the matter with the Treasury.

In response to an inquiry concerning why the question was being raised after so many years, Mr. Hackley indicated that he had no ready explanation as to why it had not been raised heretofore. Mr. Farrell suggested that the situation whereby some Reserve Banks accepted coin orders from nonmember banks only through members had not created any substantial problems as long as supplies of coin were ample. The coin shortage of recent years, however, had forced the Reserve Banks to ration available coin. The inability of member banks to obtain as much coin as they needed for their own use had diminished their ability or

willingness to place orders on behalf of nonmembers. Increasing pressure had been brought by nonmember banks on the Bureau of the Mint, representatives of which raised the point of discrimination in coin distribution at meetings of the Treasury-Federal Reserve Ad Hoc Coin Committee. He noted that another meeting of the Committee would be held next week.

At the instance of Governor Robertson there ensued a discussion of the practices of the respective Reserve Banks in regard to shipping charges and coin delivery services. In those cases where Reserve Banks followed the practice of accepting orders from nonmember banks, shipping charges were not paid. And for all banks in Reserve Bank or branch cities, coin was merely placed on the Reserve Bank's counter, where banks could call for it. For member banks in other cities, however, the service ranged up to delivery by armored car to the door of the requesting bank, with cost absorbed by the Reserve Bank. The latter development had given rise to complaints from banks in Reserve Bank or branch cities that they were not accorded equal service, since they had to pick up coin at the Reserve Bank or branch.

Governor Mitchell expressed the view that before taking any action the Board should have a detailed study made of the over-all problem. He believed that the problem was one to which the Board should give attention, because he thought the System probably should be performing more extensive coin services than at present and because the services rendered by the respective Reserve Banks were not uniform.

Governor Robertson agreed that it would be desirable to have uniform practices throughout the System, (both as to currency and coin services),and in his view this could be worked out best by the people who were closest to the problem. Therefore, he suggested that the Board ask the Reserve Bank Presidents to develop such a plan and to include in it arrangements (as to coin services) for dealing with member and nonmember banks alike on a fair and equitable basis, in accordance with the instruction in the Treasury circular. He believed that the problem should be dealt with as a complete package at such time as the Board had the full facts before it.

Governor Shepardson observed that there were a number of areas in which practices differed among the Federal Reserve Banks, such as safekeeping services. Conceivably, the suggested study should take into account the whole range of these differences.

Mr. Hackley noted, in this regard, that the Legal Division's memoranda related only to the distribution of coin by the Reserve Banks as agents of the Treasury, to which he added that while the Reserve Banks had undertaken the distribution of Treasury currency as agents of the Treasury, this was not true in the case of Federal Reserve notes.

Chairman Martin then suggested that the matter of coin distribution be studied as a separate problem, and there was general agreement.

Governor Daane asked if, assuming there was no legal basis to warrant different treatment of member and nonmember banks in regard to

coin services, it would be defensible to agree in principle that coin should be furnished to either class of bank on direct order but require nonmember banks to pay shipping charges. Mr. Farrell responded that he thought it could be argued either that there would still be discrimination or, conversely, that making coin available on the counter of the Federal Reserve Bank would represent compliance with the Treasury circular. Governor Daane suggested the rationalization that free coin delivery to member banks could be regarded as a Federal Reserve service to such banks. Mr. Hackley commented, however, that the distribution of coin was a matter for determination in the last analysis by the Treasury Department, and therefore it might be inappropriate for the System to make a determination on a matter such as delivery service without consulting the Treasury.

Governor Robertson asked if it would be feasible to move in the direction of the Legal Division's memoranda to the extent of agreeing that Reserve Banks should accept coin orders directly from nonmember banks, but to include the question of shipping costs in an over-all study.

Governor Mitchell remarked that he believed it would not be easy to accomplish uniformity of practices among the Reserve Banks, and Mr. Hackley referred to the majority view expressed by the Conference of Presidents that to require all Reserve Banks to accept orders directly from nonmember banks at the present time, in light of the coin shortage,

would aggravate the problem of equitable distribution of coin among commercial banks. Governor Mitchell then observed that in any event it would be impracticable to disturb existing practices when the year-end pressures of coin demand were imminent.

In further discussion as to the advisability of a study, Mr. Hackley reiterated the view that both acceptance of direct orders from nonmember banks and charges for shipments were essentially questions for determination by the Treasury Department.

Governor Daane expressed the opposite view as far as shipping charges were concerned. If the Treasury wanted to stand the cost of shipments to nonmember banks it could do so, of course, but he did not see a basis on which the Reserve Banks could be required to absorb the cost of shipments to nonmembers.

Governor Shepardson remarked that it was not entirely clear why acceptance of direct orders from nonmembers by Reserve Banks not currently following such a practice would aggravate the coin shortage. There followed some discussion of this point during which Mr. Farrell summarized more or less conflicting analyses that had been advanced to him by certain Reserve Bank Presidents.

Further discussion resulted in a consensus that in principle the Reserve Banks should accept coin orders directly from nonmember as well as member banks, but that pending further study the Reserve Banks not now accepting direct orders from nonmember banks should not be

required to do so. There was general agreement that uniformity of coin services among the Reserve Banks was a desirable objective and that a study of coin distribution procedures should be requested through the Presidents' Conference for the Board's consideration.

Unfit $1 Federal Reserve notes (Items 6 and 7). Pursuant to the discussion at the meeting on November 1, 1965, there had been distributed a memorandum dated November 23, 1965, from Mr. Farrell, attaching and commenting on (1) a draft of letter to the Federal Reserve Banks implementing with appropriate instructions the Board's decision that, as an interim procedure, shipments of unfit $1 Federal Reserve notes should be made to Washington for destruction, limited, however, to current receipts of each Bank's own notes except in those cases where vault space problems made it desirable to reduce the accumulated backlog or where some additional sort of notes of other Banks could be made without a significant increase in cost; (2) a draft of letter to the Secretary of the Treasury authorizing a 5 per cent verification count of the $1 Federal Reserve notes sent to Washington (such a letter had been requested by the Treasury Department); and (3) a rider to the present contract with Brink's, Incorporated, for handling new currency that would permit the use of Brink's service to return unfit Federal Reserve notes of any denomination to Washington in those cases where a Bank might decide that it was more economical or otherwise desirable to use this means of transportation.

After a discussion during which there was agreement on a minor change in the letter to the Federal Reserve Banks, the two letters and the rider to the Brink's contract were approved unanimously. Copies of the letters are attached as Items 6 and 7.

The meeting then adjourned.

Secretary's Notes: The requirements contemplated by the Board's action on October 14, 1965, in approving the issuance of a preliminary permit to Wachovia International Investment Corporation, Winston-Salem, North Carolina, having been completed, there was sent today to that corporation a letter transmitting a final permit to commence business.

Governor Shepardson today approved on behalf of the Board a memorandum from the Division of Research and Statistics recommending acceptance of the resignation of Mary G. Messersmith, Statistical Clerk in that Division, effective at the close of business December 3, 1965.

Secretary

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 26, 1965

Board of Directors,
Bank of Fort Walton,
Fort Walton Beach, Florida.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the application of the Bank of Fort Walton, Fort Walton Beach, Florida, for stock in the Federal Reserve Bank of Atlanta, subject to the numbered conditions hereinafter set forth.

1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.

2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.

In connection with the foregoing conditions of membership, particular attention is called to the provisions of the Board's Regulation H, regarding membership of State banking institutions in the Federal Reserve System, with especial reference to Section 208.7 thereof. A copy of the regulation is enclosed.

If at any time a change in or amendment to the bank's charter is made, the bank should advise the Federal Reserve Bank, furnishing copies of any documents involved, in order that it may be determined whether such change affects in any way the bank's status as a member of the Federal Reserve System.

Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by the board of directors, and a certified copy of such resolution should be transmitted to the Federal Reserve Bank of Atlanta. Arrangements will thereupon be made to accept payment for an appropriate amount of Federal Reserve Bank stock, to accept the deposit of the required reserve balance, and to issue the appropriate amount of Federal Reserve Bank stock to the bank.

The time within which admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to 30 days from the date of this letter, unless the bank applies to the Board and obtains an extension of time. When the Board is advised that all of the requirements have been complied with and that the appropriate amount of Federal Reserve Bank stock has been issued to the bank, the Board will forward to the bank a formal certificate of membership in the Federal Reserve System.

The Board of Governors sincerely hopes that you will find membership in the System beneficial and your relations with the Reserve Bank pleasant. The officers of the Federal Reserve Bank will be glad to assist you in establishing your relationships with the Federal Reserve System and at any time to discuss with representatives of your bank means for making the services of the System most useful to you.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

3850

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

Item No. 2
11/26/65

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 26, 1965.

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

Dear Mr. Hemmings:

This refers to your letter of October 15, 1965, transmitting a letter of October 14, 1965, from First Security Corporation ("First Security"), Salt Lake City, Utah, a registered bank holding company, which requests a ruling by the Board as to whether proposed business activities of Utah Mortgage Loan Corporation ("UMLC")are of such a nature as to qualify for the exemption under section 4(c)(1) of the Bank Holding Company Act of 1956 ("the Act"). That section exempts from the general prohibition against the acquisition by a holding company of stock of nonbank companies the acquisition of stock of any company "engaged . . . solely in the business of furnishing services to or performing services for such holding company and banks with respect to which it is a bank holding company."

It is understood that, following its acquisition by First Security, UMLC would solicit, on behalf of certain of First Security's subsidiary banks, mortgage loans which comply with applicable banking laws, and would make all necessary investigations and assemble data related to credit and real estate appraisals and the terms and conditions of proposed loans. Such data would be submitted to the subsidiary banks, which would solely decide whether to make the loans. If a loan was approved, UMLC would handle all details of the closing, would obtain necessary FHA or VA approval and title opinion or title insurance, and would handle disbursements of the loan proceeds. UMLC would also solicit investors to purchase mortgage loans from the banks. Upon purchase of such loans by investors, UMLC would service the loans as agent of the Banks. UMLC would not for its own account, make any loans nor would it purchase mortgage servicing contracts except as agent for the subsidiary banks. First Security's letter states that UMLC's offices will be located in the Banks' buildings or immediately adjacent thereto.

Concurrently, with First Security's acquisition of UMLC stock, the Banks would acquire UMLC's outstanding mortgage servicing contracts and the mortgage loans owned by UMLC. Activities presently conducted by UMLC with respect to real estate and insurance sales would be eliminated prior to or simultaneously with First Security's acquisition of UMLC's stock.

The Board has stated that:

> "[The] legislative history and the content in which the term 'services' is used in section 4(c)(1) seem to suggest that the term was in general intended to refer to servicing operations which a bank could carry on itself, but which the bank or its holding company chooses to have done through another organization."

The activities in which UMLC would engage, as above described, following acquisition of its stock by First Security, would, in the Board's opinion, constitute servicing activities of the kind contemplated by section 4(c)(1), and activities which the subsidiary banks may themselves perform. (See 1958 Federal Reserve Bulletin 431.) Assuming that such services would be performed by UMLC only for such subsidiary banks and that UMLC would not be engaged in any other business, the Board concludes that acquisition by First Security of UMLC's stock would fall within the exemption provided by section 4(c)(1).

Any substantial changes in the nature of the mortgage loan solicitation, investigation, and servicing activities to be conducted by UMLC from that upon which the Board's determination is premised should be brought to the Board's attention as a basis for possible redetermination.

It will be appreciated if you will transmit a copy of this letter to First Security Corporation.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 3
11/26/65

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of

BRENTON COMPANIES, INC.,
Des Moines, Iowa,

for approval of the acquisition of voting shares of Dallas County State Bank, Adel, Iowa.

ORDER APPROVING APPLICATION UNDER
BANK HOLDING COMPANY ACT

There has come before 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)), an application by Brenton Companies, Inc., Des Moines, Iowa, a registered bank holding company, for the Board's prior approval of the acquisition of at least 80 per cent of the outstanding voting shares of Dallas County State Bank, Adel, Iowa.

As required by section 3(b) of the Act, notice of receipt of the application was given to the Iowa Superintendent of Banking with a request for his views and recommendation. The Deputy Superintendent of Banking advised that the Iowa Department of Banking had no objection to the application. Notice of receipt of the application was published in the Federal

Register on September 25, 1965 (30 Federal Register 12309), which provided an opportunity for submission of comments and views regarding the proposed acquisition. The time for filing such comments and views has expired, and all those received have been considered by the Board.

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is approved, provided that the acquisition so approved shall not be consummated (a) within seven calendar days after the date of this Order or (b) later than three months after said date.

Dated at Washington, D. C., this 26th day of November, 1965.

By order of the Board of Governors.

Voting for this action: Unanimous, with all members present.

(signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 4
11/26/65

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of

BRENTON COMPANIES, INC.,
Des Moines, Iowa,

for approval of the acquisition of voting shares of Palo Alto County State Bank, Emmetsburg, Iowa.

ORDER APPROVING APPLICATION UNDER
BANK HOLDING COMPANY ACT

There has come before 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)), an application by Brenton Companies, Inc., Des Moines, Iowa, a registered bank holding company, for the Board's prior approval of the acquisition of at least 80 per cent of the outstanding voting shares of Palo Alto County State Bank, Emmetsburg, Iowa.

As required by section 3(b) of the Act, notice of receipt of the application was given to the Iowa Superintendent of Banking with a request for his views and recommendation. The Deputy Superintendent of Banking advised that the Iowa Department of Banking had no objection to the application. Notice of receipt of the application was published in the Federal

Register on September 25, 1965 (30 Federal Register 12309), which provided an opportunity for submission of comments and views regarding the proposed acquisition. The time for filing such comments and views has expired, and all those received have been considered by the Board.

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is approved, provided that the acquisition so approved shall not be consummated (a) within seven calendar days after the date of this Order or (b) later than three months after said date.

Dated at Washington, D. C., this 26th day of November, 1965.

By order of the Board of Governors.

Voting for this action: Unanimous, with all members present.

(signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 5
11/26/65

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

APPLICATIONS BY BRENTON COMPANIES, INC.,
FOR APPROVAL OF THE ACQUISITION OF SHARES OF
DALLAS COUNTY STATE BANK AND PALO ALTO COUNTY STATE BANK

STATEMENT

Brenton Companies, Inc., Des Moines, Iowa ("Applicant"), a registered bank holding company, has filed applications, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 ("the Act"), requesting the Board's prior approval of the acquisition of at least 80 per cent of the outstanding voting shares of Dallas County State Bank, Adel, Iowa, and Palo Alto County State Bank, Emmetsburg, Iowa ("Banks").

Views and recommendations of supervisory authority. - As required by section 3(b) of the Act, the Board notified the Iowa Superintendent of Banking of receipt of the applications and requested his views and recommendations thereon. The Deputy Superintendent of Banking advised that the Iowa Department of Banking had no objection to approval of either application.

Statutory factors. - With respect to each application, section 3(c) of the Act requires the Board to take into consideration the following five factors: (1) the financial history and condition of the holding company and the banks concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities and

the areas concerned; and (5) whether the effect of the proposed acquisition would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

Discussion. - Although the applications have been acted upon separately, the Board has determined that unnecessary repetition of facts and conclusions resulting from application of the foregoing statutory factors may be avoided through the use of a combined Statement. Accordingly, while separate Orders effecting the Board's determinations accompany this Statement, the Board's findings, conclusions, and reasoning in respect to each application are combined in this Statement.

Applicant presently has a majority interest in 12 banks and owns, respectively, 31 per cent and 34 per cent of the outstanding shares of Dallas County State Bank and Palo Alto County State Bank, the two banks that are the subjects of these applications. Consummation of these proposals would add to Applicant's presently owned shares, the shares in both banks that are now owned by the Brenton family interests and associates. The Brenton family owns a majority of the outstanding stock of Applicant. Thus, the present majority ownership of the Banks now held by Applicant and the Brenton family interests and associates would vest in the Applicant alone upon consummation of the proposed acquisitions.

The financial history and condition, prospects, and management of Applicant and each of its banks, including the Banks involved in these applications, are considered satisfactory.

In view of the successful operations records of Applicant's subsidiary banks, there is no reason to conclude that approval of these applications will result in any change by Applicant in the present nature of Banks' operations. Banks have been subsidiaries of Applicant since prior to enactment of the Act. They have been provided by Applicant with management services and no change in this respect will occur upon approval of these applications. Similarly, there is no reason to believe that consummation of the proposed transactions would have any significant effect on the convenience, needs, and welfare of the areas now served by the Banks. Nor, in view of the existing ownership and control of the Banks, does it appear that the acquisitions proposed will have the effect of expanding the size or extent of Applicant's present system beyond limits consistent with adequate and sound banking, public interest, and the preservation of banking competition.

On the basis of all relevant facts as contained in the record before the Board and in the light of the factors set forth in section 3(c) of the Act, it is the Board's judgment that the proposed acquisitions would be consistent with the public interest and that the applications should, therefore, be approved.

November 26, 1965.

Item No. 6
11/26/65

S-1977

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 26, 1965.

Dear Sir:

Possible solutions to the problems created by the adjournment of Congress without enacting legislation to permit local destruction of unfit Federal Reserve notes, coupled with the increasing quantities of such notes being accumulated at the Federal Reserve Banks, have been discussed by representatives of the Board and the Treasury Department. As a result of these discussions, it has been agreed that the following procedures with respect to current receipts of unfit $1 Federal Reserve notes should be adopted effective December 1, 1965, and continued until further notice.

Sorting

"Own" notes should be sorted separately from notes of other Banks. If it is felt that during this sort a further sort of notes of other Banks by Bank of issue can be made without a significant increase in cost, there is no objection to making such additional sorts.

Canceling and Cutting

"Own" notes and other notes sorted by Bank of issue should be canceled and cut lengthwise.

Shipping

"Own" notes and other notes sorted by Bank of issue should be shipped to Washington under the same procedures followed with respect to unfit Federal Reserve notes of higher denominations. In this connection, the Board has approved a rider to the Brink's contract which will permit the use of the Brink's service to return unfit Federal Reserve notes of any denomination to Washington in those cases where a Bank

may decide that it is more economical or otherwise desirable to use this means of transportation. In such cases, arrangements should be made direct with Brink's.

The Treasury has requested that shipments of $1 notes be distinguished from notes of higher denominations by an "X" in a red circle on the face of the shipping tag. For those offices that are already showing an "X" on the tags to distinguish Federal Reserve currency, this will mean merely encircling the "X" in red. Other offices should add both an "X" and the circle for shipments of $1 bills.

While the above procedures are intended to apply basically to current receipts of own notes, they may be extended either to the accumulated backlog of unfit $1 Federal Reserve notes to the extent the backlog is causing vault space problems or to notes of other Banks where the sort by Bank of issue can be more economically accomplished at this time rather than at a later date when overtime might be necessary. In order to minimize costly rehandling in and out of vaults, it is suggested that any notes sorted by Bank of issue be canceled and cut and shipped to Washington.

Very truly yours,

Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL
FEDERAL RESERVE BANKS.

Item No. 7
11/26/65

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

November 26, 1965

The Honorable Henry A. Fowler,
Secretary of the Treasury,
Washington, D. C. 20220.

Dear Joe:

The fact that Congress adjourned without enacting legislation to permit local destruction of unfit Federal Reserve notes has left the Federal Reserve System with an increasingly serious problem with respect to unfit $1 bills. With the hope of avoiding costly sorting and shipping charges, the Board directed the Reserve Banks to hold in their vaults, pending legislation permitting local destruction, all of the unfit $1 Federal Reserve notes that have been turned in to them since such notes were first issued in November 1963. About 400 million such notes are already on hand and the rate of accumulation is constantly increasing. Because of vault space limitations, there now appears to be no alternative but to return at least some of them to the Treasury for redemption credit and destruction.

As you know, there has been considerable discussion of this matter between representatives of the Treasury and the Board and plans are being developed to handle the notes that will have to be shipped to Washington. The Board understands that in these discussions a question has been raised with respect to the extent of the verification count of these notes before destruction.

Such precedents as exist for guidance in this regard are:

(1) The Treasurer of the United States is making a 100 per cent verification count of unfit Federal Reserve notes in denominations of $5 and above but,

(2) Under regulations and procedures prescribed by the Secretary of the Treasury, Federal Reserve Banks are making only a 5 per cent verification count of unfit $1 silver certificates.

In the light of these circumstances, the Board would have no objection to, and would expressly authorize, a procedure whereby the verification count of the lower halves of unfit $1

Federal Reserve notes received by the Treasurer of the United States would be on a 5 per cent basis with a package count of the upper halves by the Comptroller of the Currency, as in the case of the $5, $10, and $20 denominations. It would be understood that no change will be made in the procedure with respect to unfit Federal Reserve notes in denominations of $5 and above.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.