

Minutes for January 12, 1966

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><i>M</i></u>
Gov. Robertson	<u><i>R</i></u>
Gov. Balderston	<u><i>CCB</i></u>
Gov. Shepardson	<u><i>TS</i></u>
Gov. Mitchell	<u><i>MM</i></u>
Gov. Daane	<u><i>DD</i></u>
Gov. Maisel	<u><i>SM</i></u>

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, January 12, 1966. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
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. Hexter, Associate General Counsel
Messrs. O'Connell, Shay, and Hooff, Assistant General Counsel
Messrs. Goodman, Leavitt, and Thompson, Assistant Directors, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the Secretary
Messrs. Heyde and Robinson and Mrs. Heller of the Legal Division
Messrs. Achor, Donovan, Egertson, Lyon, and Maguire of the Division of Examinations

Audit of destruction procedures. Mr. Cardon reported that Mr. Carlock, Fiscal Assistant Secretary of the Treasury, was scheduled for discussion with a Congressional subcommittee this morning and probably would be asked to comment on the possibility of including in the pending bill regarding local destruction of unfit Federal Reserve notes at the Federal Reserve Banks a provision for audit of the destruction procedures

1/ Withdrew from meeting at point indicated in minutes.

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by the General Accounting Office. Mr. Carlock had asked for any views the Board might wish to offer regarding such a provision.

There ensued a discussion of the implications of such a provision and reasons that might be offered both for and against it. Some members of the Board expressed reservations in terms of the relationship to the broader question of audit of the Federal Reserve by the General Accounting Office, while other members felt that the limited proposal presented no particular problem. It was noted, however, that the bill would provide for local destruction of unfit notes under procedures prescribed by the Treasury Department, that the destruction of the notes therefore would be subject not only to audit within the System but also to surveillance by the Treasury Department, and that the requirement of an audit by the General Accounting Office in addition to these other safeguards would appear to be questionable in terms of cost and efficiency.

It was understood that Mr. Cardon would convey to Mr. Carlock the tenor of the discussion.

Governor Balderston then withdrew from the meeting, as did Messrs. Cardon and Farrell.

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

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Item No.

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| Letter to American Trust Company, New York,
New York, approving the establishment of a
branch at 562 Fifth Avenue, Borough of Manhattan. | 1 |
| Letter to Manufacturers Hanover Trust Company,
New York, New York, approving the establishment
of a branch in Bellmore, Town of Hempstead. | 2 |
| Letter to Marine Midland Grace Trust Company
of New York, New York, New York, approving the
establishment of a limited purpose branch at
100 Broadway, Borough of Manhattan. | 3 |
| Letter to Marine Midland Trust Company of
Western New York, Buffalo, New York, approving
the establishment of branches (mobile banking
facilities) at three specified locations. | 4 |
| Letter to Security Trust Company, Rochester,
New York, approving the establishment of a
branch in the Town of Greece. | 5 |
| Letter to The Bank of Russellville, Russellville,
Arkansas, approving an investment in bank premises. | 6 |
| Letter to Morgan Guaranty International Finance
Corporation, New York, New York, granting an
extension of time to purchase shares of Peruinvest-
Compania de Fomento e Inversiones S.A., Lima, Peru. | 7 |
| Telegram to the Federal Reserve Agent at Cleveland
authorizing the issuance to BancOhio Corporation,
Columbus, Ohio, of a limited permit to vote its
stock of The First National Bank of Jackson, Jackson,
Ohio. | 8 |

Report on competitive factors. There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Puget Sound National

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Bank of Tacoma, Tacoma, Washington, and First Union National Bank, Puyallup, Washington.

Discussion centered upon the degree of present and potential competition between the two banks and led to agreement upon certain changes in the conclusion, along with conforming adjustments in the body of the report.

The report was then approved unanimously for transmittal in a form in which the conclusion read as follows:

Consummation of the proposed merger of The Puget Sound National Bank of Tacoma and First Union National Bank, Puyallup, would eliminate competition existing between them in Puyallup and potential for even keener competition in view of the approved, but not yet opened branch of The Puget Sound Bank of Tacoma in the Puyallup area. The competitive effect of the proposed merger would be adverse.

Application of Navajo Bancorporation (Items 9-11). On September 9, 1965, the Board directed Navajo Bancorporation, Inc., Phoenix, Arizona, to divest itself of certain bank stock and informed the Department of Justice of apparent violations of the Bank Holding Company Act of 1956 by Bancorporation both in acquiring bank stocks without prior approval by the Board (stock of one bank so acquired had already been divested) and in failure to register as a bank holding company. The Board recommended that the Department hold in abeyance a decision to institute criminal proceedings, pending compliance by Bancorporation with the Board's divestment directive. In November 1965 the Board was informed

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by Bancorporation that the divestment had been accomplished. Not involved in the divestment directive was the stock owned or controlled by Bancorporation in The First Navajo National Bank, Holbrook, Arizona, and Bancorporation had applied for a limited permit to vote that stock at the January 1966 shareholders' meeting.

There had now been distributed memoranda dated January 11, 1966, from the Division of Examinations and the Legal Division suggesting, for reasons stated, that a section 301 determination might be granted in lieu of the requested limited voting permit, and recommending that the Department of Justice and counsel for Bancorporation be informed that Bancorporation's disposition of the stocks with which the divestment directive was concerned had satisfied the requirements of the directive. Drafts of letters reflecting these recommendations were attached.

After introductory comments by Mr. Solomon, members of the Board expressed a preference for issuing a limited voting permit as requested, rather than a section 301 determination. Accordingly, unanimous approval was given to a telegram to the Federal Reserve Agent at San Francisco authorizing the issuance of such a voting permit. The letters to the Department of Justice and to counsel for Bancorporation were also approved unanimously subject to appropriate changes to reflect the decision to issue a voting permit rather than a section 301 determination. Copies of the telegram and letters are attached as Items 9-11.

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Messrs. Hooff, Goodman, Donovan, and Lyon then withdrew from the meeting.

Status of International Bank (Item No. 12). There had been distributed a memorandum dated January 6, 1966, from the Legal Division regarding the question whether International Bank, Washington, D. C., was a bank holding company within the meaning of the Bank Holding Company Act of 1956. International Bank owned 29.5 per cent of the stock of Financial General Corporation and had claimed to control that corporation and its underlying companies, including a number of banks and bank holding companies. Financial General was affiliated with Equity Corporation, New York, New York, which had registered under the Investment Company Act before 1955. The bank holding company statute provided exemption from holding company status for an affiliate of a company so registered.

The memorandum set forth the details of the corporate relationships involved and explored the applicability to them of various elements of the statutory definition of a bank holding company. On the basis of that analysis the Legal Division concluded that International Bank (1) indirectly owned 25 per cent of the stock of a bank holding company and was therefore a bank holding company under section 2(a)(1) of the Bank Holding Company Act; (2) indirectly controlled 25 per cent of the stock of a bank holding company and was therefore a bank holding company under section 2(a)(1); (3) controlled the election of a majority of

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the directors of each of two or more banks and was therefore a bank holding company under section 2(a)(2); and (4) was not insulated from bank holding company status by Financial General's investment company affiliate exemption.

After discussing these conclusions in some detail, the Division recommended that the Federal Reserve Bank of Richmond be requested to inform International Bank that the latter appeared to be a bank holding company on the basis of both indirect ownership and indirect control of 25 per cent of the voting shares of a bank holding company, and on the basis that it controlled the election of a majority of the directors of two or more banks; that the Board was unable to agree with the arguments presented by Financial General in its letter of December 21, 1964, purporting to show that International Bank should not be deemed a bank holding company because of the provisions of section 2(a)(B) of the Act; that the Board would allow International Bank until February 15, 1966, to present any further arguments as to why it should not be deemed to be a bank holding company; and that in the absence of such a showing, the Board would proceed on the basis that International Bank was subject to the provisions of the Act. A draft of letter to the Richmond Reserve Bank in those terms was attached to the memorandum.

The discussion at this meeting covered, among other aspects of the matter, actions available to International Bank to remove itself from bank holding company status. It was indicated that the bank might

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present to the Board a plan for divestment of a sufficient portion of its stock of Financial General, or that it might purchase additional stock of Equity Corporation. The definition of "affiliate" in the Investment Company Act of 1940 (and consequently qualification for the "affiliate" exemption in the Bank Holding Company Act) turned upon ownership of 5 per cent of the affiliate's stock. International Bank at present owned 3 per cent of the stock of Equity.

Inquiry was made as to why the question of bank holding company status had now become active, having previously been passive for a number of years. It was brought out in reply that not until 1963 had International Bank's holdings of Financial General exceeded the 25 per cent figure set forth in the Bank Holding Company Act as indicating applicability of the Act's provisions. Beginning in 1964 the Board's staff and the Federal Reserve Bank of Richmond had been looking into the matter, and there had been cumulative grounds for considering International Bank a bank holding company.

It was observed that the draft letter stated only conclusions, without supporting rationale. In response the view was expressed that, since the position proposed to be taken by the Board might lead to litigation, it would seem preferable to state only the conclusions at this time, invite any counterarguments International Bank wished to offer, and reserve a full statement of the Board's reasoning until after consideration of International Bank's response.

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Certain changes in the draft letter were agreed upon in the light of today's discussion, and the letter was then approved unanimously in the form attached as Item No. 12.

Five Points National Bank. Mr. Solomon reported having been informed that a solution had been reached regarding the serious problem in regard to Five Points National Bank, Miami, Florida. A new bank to be called Coral Way National Bank (understood to be financed and operated by persons associated with the First National Bank of Miami) was expected to begin operations this morning, having taken over the assets and assumed the liabilities of Five Points National Bank.

The meeting then adjourned.

Secretary's Notes: Attached as Item No. 13 is a copy of a telegram sent today to the Federal Reserve Agent at Atlanta authorizing the issuance to Capital Bancshares, Inc., Miami, Florida, of a limited permit to vote its stock of Capital National Bank of Miami, Miami, Florida.

In accordance with Executive Order No. 11213 and the Treasury regulations issued under that order, a letter (copy attached as Item No. 14) was sent today over the signature of Chairman Martin to the Secretary of the Treasury requesting that information returns made by commercial banks under the Interest Equalization Tax Act be open to inspection by seven specified members of the Board's staff duly authorized by the Board.

On January 11, 1966, Governor Shepardson approved on behalf of the Board a letter to the Office of Economic Opportunity, Executive Office of the President, agreeing to make available to the Surveys and Research Corporation certain bank

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condition report data as of June 30, 1965, for a study sponsored by the Office of Economic Opportunity. A copy of the letter is attached as Item No. 15.

Governor Shepardson today approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

Salary increases

Frances Lucile Griffin, Secretary, Board Members' Offices, from \$6,278 to \$6,683 per annum, effective January 16, 1966.

James D. Goetzinger, Systems Programmer, Division of Data Processing, from \$9,879 to \$10,619 per annum, effective January 16, 1966.

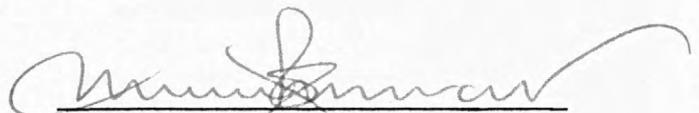
Judy Ann Shaffer, Stenographer, Division of International Finance, from \$4,149 to \$4,641 per annum, effective January 16, 1966.

Transfer

Diane Salisbury, from the position of Stenographer in the Division of International Finance to the position of Secretary in the Division of Bank Operations, with an increase in basic annual salary from \$4,641 to \$5,181, effective January 16, 1966.

Acceptance of resignation

Mary Elizabeth Mehall, Statistical Assistant, Division of Research and Statistics, effective at the close of business February 3, 1966.


Secretary

Item No. 1
1/12/66

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 12, 1966.

Board of Directors,
American Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by American Trust Company, New York, New York, of a branch at 562 Fifth Avenue, Borough of Manhattan, New York, New York, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2
1/12/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 12, 1966.



Board of Directors,
Manufacturers Hanover Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Manufacturers Hanover Trust Company, New York, New York, of a branch at 2725 Merrick Road, Bellmore (unincorporated area), Town of Hempstead, Nassau County, New York, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3
1/12/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 12, 1966.



Board of Directors,
Marine Midland Grace Trust
Company of New York,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Marine Midland Grace Trust Company of New York, New York, New York, of a branch at 100 Broadway, Borough of Manhattan, New York, New York, for the limited purpose of conducting operations of certain units of its Auditing and International Banking Departments, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

Item No. 4
1/12/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 12, 1966.

Board of Directors,
Marine Midland Trust Company
of Western New York,
Buffalo, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Marine Midland Trust Company of Western New York, Buffalo, New York, of branches (mobile facilities) at the following locations, provided each is established within six months from the date of this letter.

- (1) 325 Main Street, Village of Youngstown, Town of Porter, Niagara County, New York,
- (2) Southside of Saunders Settlement Road, 300 feet east of its intersection with Hoover and Townline Roads, Town of Cambria (unincorporated area), Niagara County, New York, and
- (3) Eastside of U.S. Route 219, approximately 317 feet northwest of the intersection of U.S. Route 219 and Herman Hill Road, North Boston (unincorporated area), Town of Boston, Erie County, New York.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branches; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

Item No. 5

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 12, 1966.

Board of Directors,
Security Trust Company,
Rochester, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Security Trust Company, Rochester, New York, of a branch at 2213 Ridge Road West, Town of Greece (unincorporated area), Monroe County, New York, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

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

WASHINGTON, D. C. 20551

Item No. 6
1/12/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 12, 1966.



Board of Directors,
The Bank of Russellville,
Russellville, Arkansas.

Gentlemen:

Pursuant to the provisions of Section 24A of the Federal Reserve Act, the Board of Governors of the Federal Reserve System approves an investment in bank premises of \$150,000 by The Bank of Russellville, Russellville, Arkansas, for the purpose of purchasing a parcel of land adjacent to present banking quarters to be used for future expansion.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 7
1/12/66

WASHINGTON, D. C. 20551



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD.

January 12, 1966.

Morgan Guaranty International
Finance Corporation,
23 Wall Street,
New York, New York. 10015

Gentlemen:

Reference is made to your letter of December 23, 1965, referring to the Board's letter of December 31, 1964, granting consent for your Corporation to purchase 13,000 additional shares of Peruano-Suiza de Fomento e Inversiones S.A. ("Peruinvest"), Lima, Peru, now known as Peruinvest--Compania de Fomento e Inversiones S.A., at a cost of approximately US\$651,170, provided such stock was acquired by December 31, 1965. It is understood that your Corporation subsequently purchased 6,209 additional shares, and that your total holding is 13,972 shares carried on your books at US\$589,152, but that Peruinvest has now decided to defer its decision as to the issuance of additional shares until sometime during the first part of 1966.

In accordance with your request, the Board of Governors extends to June 30, 1966, the time within which your Corporation may purchase the balance of the shares of Peruinvest authorized in the Board's consent of December 31, 1964.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

T E L E G R A M
LEASED WIRE SERVICEItem No. 8
1/12/66BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

January 12, 1966

HALL - CLEVELAND

KECEA

- A. BancOhio Corporation, Columbus, Ohio.
- B. The First National Bank of Jackson, Jackson, Ohio.
- C. None.
- D. At any time prior to May 1, 1966, at the annual meeting of the shareholders of such bank, or any adjournments thereof, to elect directors for the ensuing year, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank.

(Signed) Karl E. Bakke
BAKKE

Definition of KECEA:

The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

TELEGRAM
LEASED WIRE SERVICEItem No. 9
1/12/66**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**
WASHINGTON

January 12, 1966.

WHITMAN -- SAN FRANCISCO

KECEA

- A. Navajo Bancorporation, Inc., Phoenix, Arizona.
- B. The First Navajo National Bank, Holbrook, Arizona.
- C. None.
- D. At any time prior to May 1, 1966, at the annual meeting of the shareholders of such bank, or any adjournments thereof, to elect directors for the ensuing year, and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank.

(Signed) Karl E. Bakke

BAKKE

Definition of KECEA:

The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (8-964).

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 10
1/12/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 12, 1966.



The Honorable Fred M. Vinson, Jr.,
Assistant Attorney General,
Criminal Division,
Department of Justice,
Washington, D. C. 20530

Attention Mr. Harold P. Shapiro, Chief,
Administrative Regulations Section.

Re: Navajo Bancorporation, Inc.
Phoenix, Arizona

Dear Mr. Vinson:

Reference is made to the Board's letter of September 9, 1965, and to your reply of October 12, 1965, on the above-mentioned subject. Your letter advised that the matter of any action by your Department regarding the apparent violations of law by Navajo Bancorporation that were discussed in the Board's September 9 letter would be held in a pending status awaiting further advice from the Board as to Bancorporation's compliance with certain directives issued by the Board.

In its letter to you on this subject, the Board's recommendation that your Department defer any decision regarding the institution of any criminal action relating to Bancorporation's apparent unlawful acquisition of the stock of The Bank of Tucson, Tucson, Arizona, and Valley State Bank, Lamar, Colorado, was premised upon assurances given by Bancorporation that it had sold The Bank of Tucson stock and that it would effect absolute divestment of the Valley State Bank stock no later than December 31, 1965. The Board has received information in sufficient form and scope to satisfy it that Bancorporation has divested itself of all stock formerly held in both banks, and that, as a result, Bancorporation is no longer a bank holding company as that term is defined in the Bank Holding Company Act. For your consideration, it is the Board's judgment that no useful public purpose would be served by the institution of criminal proceedings against Bancorporation or its officers and directors.

The Honorable Fred M. Vinson, Jr. -2-

The Board has this date advised Bancorporation's counsel of the Board's conclusion regarding compliance with its divestment directive and of the Board's advice to your Department in this regard. A copy of the Board's letter to Bancorporation's counsel is enclosed. Should you wish access to the information in the Board's possession upon which its conclusions have been based, we will be pleased to make the same available to you.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

Item No. 11
1/12/66BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 12, 1966.



John A. Moore, Esq.,
Holland & Hart,
500 Equitable Building,
Denver, Colorado. 80202

Dear Mr. Moore:

This refers to an application recently filed with the Board on behalf of Navajo Bancorporation, Inc., Phoenix, Arizona, for a limited voting permit to vote at the January 13, 1966 annual meeting of shareholders of The First Navajo National Bank, Holbrook, Arizona, the stock of that bank owned or controlled by Bancorporation. The Board has today authorized the issuance of such permit.

A portion of the information submitted by Bancorporation as part of its voting permit application confirmed information earlier transmitted to the Board by your firm by letters of August 30 and November 15, 1965; and by Mr. B. F. Leimgruber, Bancorporation's President, in a letter of November 17, 1965, regarding Bancorporation's divestment of the stock in both The Bank of Tucson, Tucson, Arizona, and Valley State Bank, Lamar, Colorado. On the basis of the information contained in the above-mentioned correspondence and application, the Board is satisfied that Bancorporation has divested itself of the aforementioned bank stocks and has complied with the Board's directive of September 9, 1965.

The Board has this date advised the Department of Justice of the above conclusion and of the further conclusion that Bancorporation is not now required to register as a bank holding company. A copy of this letter is being forwarded to Bancorporation's President and to Mr. Harry J. Cavanagh, a member of the firm of O'Connor, Cavanagh, Anderson, Westover, Killingsworth & Beshears, Bancorporation's Arizona counsel.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 12
1/12/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 13, 1966.



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

Dear Mr. Nosker:

You will recall that Financial General Corporation ("FG"), Washington, D. C., indirectly owns and controls, through a wholly-owned subsidiary, all the stock of each of three registered bank holding companies. However, FG has been deemed not to be a bank holding company under the Bank Holding Company Act of 1956 because of the "investment company affiliate" exemption provided in clause (B) of section 2(a) of the Act. Nor, prior to certain occurrences coming to the Board's attention in 1964, was there readily apparent reason to explore the question whether the Bank Holding Company Act is applicable to International Bank ("IB"), an Arizona corporation with headquarters in Washington, D. C., that owned, prior to 1963, less than 25 per cent of the voting shares of FG. However, as noted in the staff's letter to you of September 15, 1964, IB's annual report to the Board for 1963 disclosed that IB had acquired, and at the date of its report owned, over 25 per cent of the voting stock of FG. This disclosure has prompted consideration by the Board of IB's status under the Bank Holding Company Act.

Incident to its review of IB's status, the Board has considered the views presented in a letter from FG, dated December 21, 1964, which contended that IB should not be deemed to be a bank holding company. However, the Board has not been persuaded by the reasons set forth in the letter, nor has the Board found any basis for an exemption for IB from the Act. Accordingly, you are requested to advise IB that it appears to the Board that

(1) IB indirectly owns 25 per cent or more of the stock of a bank holding company and is therefore a bank holding company under section 2(a)(1) of the Act;

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. John Nosker

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(2) IB indirectly controls 25 per cent or more of the stock of a bank holding company and is therefore a bank holding company under section 2(a)(1) of the Act;

(3) IB controls the election of a majority of the directors of each of two or more banks and is therefore a bank holding company under section 2(a)(2) of the Act; and

(4) IB is not insulated from bank holding company status by FG's "investment company affiliate" exemption.

Will you please also advise IB that, before taking a position in this matter, the Board will give consideration to any additional arguments that may be submitted on behalf of IB by February 15, 1966.

Needless to say, the Board would appreciate any comments or views that your Bank might present.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

T E L E G R A M
LEASED WIRE SERVICEItem No. 13
1/12/66BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

January 12, 1966.

TARVER -- ATLANTA

KECEA

- A. Capital Bancshares, Inc., Miami, Florida.
- B. Capital National Bank of Miami, Miami, Florida.
- C. None.
- D. At any time prior to May 1, 1966, at the annual meeting of stockholders of such bank, or any adjournment thereof, to elect directors for the ensuing year and to act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank.

(Signed) Karl E. Bakke

BAKKE

Definition of KECEA:

The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 14
1/12/66

OFFICE OF THE CHAIRMAN

January 12, 1966.

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

Dear Joe:

In accordance with Executive Order No. 11213 and the Treasury regulations issued under that order, the Board of Governors of the Federal Reserve System hereby requests that information returns made by commercial banks under the Interest Equalization Tax Act be open to inspection by the following members of the Board's staff duly authorized by the Board:

1. Ralph A. Young, Senior Adviser to the Board and Director, Division of International Finance;
2. Robert L. Sammons, Associate Director, Division of International Finance;
3. Gordon B. Grimwood, Assistant to the Director, Division of International Finance;
4. Frederick R. Dahl, Chief, Special Studies and Operations Section, Division of International Finance;
5. Robert F. Gemmill, Acting Chief, Special Studies and Operations Section, Division of International Finance;
6. Frederic B. Ruckdeschel, Economist, Special Studies and Operations Section, Division of International Finance; and
7. Mrs. Alton C. James, Clerk, Special Studies and Operations Section, Division of International Finance.

Procedures have been established within the Board of Governors to assure that inspection of these returns will be limited to the members of the Board's staff named above.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 15
1/12/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 12, 1966.

Mr. Oscar Ornati, Chief,
Economic Development and Manpower,
Office of Economic Opportunity,
Executive Office of the President,
Washington, D. C. 20506

Dear Mr. Ornati:

In response to your request of December 3, 1965, the Board will be pleased to make condition report data as of June 30, 1965 available to the Surveys and Research Corporation for the study sponsored by the Office of Economic Opportunity.

Due to the confidential nature of the data requested, however, it will be necessary that processing pursuant to anticipated specifications be done on the Board's equipment. It is understood that if the scope and complexity of the final specifications for this study require the use of the Board's computer in addition to other processing equipment, the required computer programs will be furnished by Surveys and Research Corporation.

Dr. Rosenberg has had several conferences with the Board's staff regarding this study and it is expected that his final specifications may not require computer computations.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.