

Minutes for March 14, 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



Gov. Robertson

Gov. Shepardson

Gov. Mitchell

Gov. Daane

Gov. Maisel

Gov. Brimmer

Minutes of the Board of Governors of the Federal Reserve System
on Monday, March 14, 1966. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Senior Adviser to the Board and
Director, Division of International Finance
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Associate General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Sammons, Associate Director, Division of
International Finance
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Egertson, Supervisory Review Examiner,
Division of Examinations
Mr. Poundstone, Review Examiner, Division of
Examinations

Approved items. The following letters, copies of which are attached under the respective numbers indicated, were approved unanimously after consideration of background material that had been distributed or circulated and clarification of points of information about which members of the Board inquired:

Item No.

Letter to Bentonville State Bank, Bentonville,
Indiana, approving the establishment of a branch
in Everton.

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	<u>Item No.</u>
Letter to The Peoples Bank & Trust Company of Chase City, Chase City, Virginia, approving an investment in bank premises.	2
Letter to Security Bank and Trust Company, Lincoln Park, Michigan, approving the establishment of a branch in Taylor Township.	3
Letter to Wells Fargo Bank, San Francisco, California, granting an extension of time within which to establish a branch in Mountain View.	4
Letter to First National City Bank, New York, New York, approving the establishment of a branch in Seoul, Korea.	5
Letter to the Federal Deposit Insurance Corporation, regarding the application of Williams Savings Bank, Williams, Iowa, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	6
Letter to the Comptroller of the Currency regarding his request for reports of condition of Edge and agreement corporations that are subsidiaries of national banks.	7

Bill to amend section 23A (Items 8 and 9). There had been distributed a draft of letter to Chairman Patman of the House Banking and Currency Committee in reply to his request for the Board's views on bill H.R. 12130, introduced by Congressman Hanna, to amend section 23A of the Federal Reserve Act.

Section 23A limits loans or extensions of credit by a member bank to an affiliate of the bank to 10 per cent of the bank's capital and surplus for any one affiliate and 20 per cent for all affiliates;

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and, subject to certain exceptions, the statute requires that a loan or extension of credit by a member bank to an affiliate be secured by collateral of at least 120 per cent of the amount of the loan or credit (or 110 per cent if the collateral represents obligations of certain governmental entities in the United States). Section 23A provides exemptions from these restrictions for an Edge or agreement corporation that is an affiliate of a member bank, and for any wholly-owned subsidiary of such an affiliate. H.R. 12130 (like H.R. 613, introduced by Congressman Multer) would broaden the exemptions to cover any subsidiary of an Edge or agreement corporation affiliated with a member bank, even though the subsidiary was not wholly owned by such an affiliate.

The need for legislation in this connection arose from instances where a member bank's affiliated Edge or agreement corporation had a subsidiary foreign bank that was less than wholly owned. This limited need suggested the advisability of restricting the scope of any change in the law to the collateral security requirements of section 23A and to subsidiaries of Edge and agreement corporations that were foreign banks. This was not true with respect to either H.R. 12130 or H.R. 613.

A proposed amendment to meet the situation had been the subject of the Board's letter to Chairman Patman of April 27, 1965, and the draft of reply now suggested to be made to Chairman Patman would refer to that fact. However, in reviewing the problem at this meeting

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Messrs. Shay and Hackley indicated that upon further study the Legal Division would suggest a further narrowing of the proposed exemption from the requirements of section 23A so that the exemption would apply only to the specific situation that was of concern. They read the language they would now suggest and noted that the modification would require some changes in the language of the letter to Chairman Patman.

There being agreement with this suggestion, unanimous approval was given to a letter to Chairman Patman in the form attached as Item No. 8. It was understood that advice of the recommended modification of the Board's original proposal also would be given to Chairman Robertson of the Senate Banking and Currency Committee inasmuch as the language of the original proposal had been incorporated in pending bills to amend the Bank Holding Company Act and to increase insurance coverage for bank deposits and savings and loan accounts. A copy of the letter sent to Chairman Robertson is attached as Item No. 9.

Bank Holding Company Act. There had been distributed a draft of statement to be made by Chairman Martin on March 16, 1966, before the Subcommittee on Financial Institutions of the Senate Banking and Currency Committee regarding S. 2353, S. 2418, and H.R. 7371, bills to amend the Bank Holding Company Act. The testimony would describe the principal changes in the Act reflected in S. 2353, which had been introduced at the Board's request, and it would cite differences between that proposed legislation and the other two bills.

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After Mr. Cardon had reviewed the draft statement and suggested certain changes, he and representatives of the Legal Division responded to several technical questions asked by members of the Board. Mr. Hackley pointed out in this connection that S. 2353 was long and complex. In several places it had been determined that technical corrections, not affecting substance, would be in order before the bill was finally passed.

Governor Robertson expressed satisfaction with the general content of the draft statement. He agreed with Mr. Cardon that it would be advisable to insert sentences noting that the original Bank Holding Company Act included tax provisions affording relief to those forced to dispose of property under the divestment requirements, and that this same principle should apply to divestitures required by the amendments now under consideration. He also agreed with Mr. Cardon that effective means of preventing token divestments should be specified by statute, or that in the alternative the legislation should require divestment in a manner satisfactory to the supervisory authority.

On the question of coverage of trusts under the proposed legislation, Governor Robertson felt the Board should take a position in favor of excluding from the coverage of the Act only a trust that by its terms must terminate within 25 years or not later than the death of (a) designated beneficiaries living on the date the trust became effective or (b) children of the settlor. However, he believed the

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Board should not take an adamant position against exclusion of trusts for lives in being plus 21 years.

Secretary's Note: At the Board meeting on March 15, Mr. Cardon stated reasons for suggesting that S. 2353 be amended to exclude from coverage trusts that must terminate within 21 years after the death of individual beneficiaries living when the trusts became effective, and there was general agreement that the Chairman's statement should so recommend.

Question was raised about possibilities if the one-bank holding company definition included in the pending legislation should fail to win favor in the Senate, as seemed fairly likely, and several suggestions were offered. One was that some ground would be gained if a bill was passed providing (as in S. 2353) limitations on "upstream" or "cross-stream" credit by amending section 23A of the Federal Reserve Act so as (1) to apply to all insured banks, rather than member banks only, the prohibition against extending credit totaling more than 10 per cent of capital and surplus to any one affiliate, or more than 20 per cent for all affiliates, and (2) broadening the definition of "affiliate" to cover bank holding companies and their subsidiaries. Another suggestion was to make more effective use of the Board's authority in the area of section 301 determinations, with an extension of such authority to cover all insured banks to guard against an incentive to withdrawals from membership. Question was raised about the possibility of a compromise definition of "one-bank holding company" that would cover only

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the more significant cases. Governor Robertson noted that it had been suggested that companies with banks under, say, \$20 million be eliminated from coverage. However, there was just as great a possibility of abuse--perhaps greater--in the case of a small bank, particularly if it was the only bank in a community.

Chairman Martin concluded the discussion by observing that the Board could do little more than point out to the Congress that its experience with the Bank Holding Company Act had brought to light several loopholes that should be closed. If the Board's recommendations were not accepted, it would be up to the Congress to develop some more effective device.

It was understood that the draft statement on the pending bills would be reviewed in the light of this discussion and that it would be presented in a final form satisfactory to Chairman Martin.

Proposed new national bank in San Francisco. At the Board meeting last Friday, March 11, reference was made to receipt of a copy of a letter sent by the Comptroller of the Currency under date of March 10 to counsel for a group of persons associated with five large savings and loan associations that were substantial depositors in the San Francisco National Bank, now in receivership. The Comptroller advised that he had granted preliminary approval to an application by that group for a new national bank charter, subject to certain conditions. At the March 11 meeting it had been understood that the staff would analyze the letter.

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Mr. Solomon commented that the application had been filed some time ago and that the same firm of counsel was representing the same savings and loan associations as well as a labor union in pending litigation relating to the status of deposits in the San Francisco National Bank. The firm also was representing the same group in the suit filed against the Federal Reserve Bank of San Francisco to upset the Bank's lien on assets against loans it had made to San Francisco National Bank.

Turning to the conditions set forth in the Comptroller's letter, Mr. Solomon said that the manner in which some of them could be met was not clear. One condition called for the new bank to have initial paid-in capital of at least \$5 million; this probably could be supplied. Another condition, however, stated that final approval of the charter was dependent on the Comptroller being satisfied that the value of assets of San Francisco National Bank (to be acquired by the applicants, along with the national bank's remaining liabilities, from the Federal Deposit Insurance Corporation) was sufficient to assure the safe operation of the new bank "on the basis proposed"; it seemed doubtful that this condition could be met on any reasonable basis. Another condition stated that the new organizers must provide assurances satisfactory to the Comptroller that the certificates of deposit issued by the new bank pursuant to the plan would be paid and that the claims against the San Francisco National Bank and/or the

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receiver, including contingent claims and further expenses of litigation, would be defended and met. It was not clear what that meant. In sum, Mr. Solomon did not feel that the granting of preliminary approval necessarily meant that the new bank would open.

Mr. Solomon then commented on the volume of deposits of San Francisco National Bank on January 22, 1965, (the date it closed), the amount owed to the Reserve Bank at that time and the collateral held, and the subsequent record of collections. As of March 2 the indebtedness had been reduced to \$2.2 million, with collateral remaining in face value of \$7.5 million. It seemed likely that the Reserve Bank would ultimately collect in full, conceivably with interest, but this was dependent on the outcome of the pending suit against the Reserve Bank.

After discussion it was agreed that there appeared to be no need for action to be taken on the copy of the Comptroller's letter that had been received.

The meeting then adjourned.

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

Letter to the Federal Reserve Bank of St. Louis (attached Item No. 10) approving the appointment of Donald L. Moses as assistant examiner.

Memorandum from the Division of Examinations recommending acceptance of the resignation of Patricia A. Kilroy, Secretary in that Division, effective at the close of business March 14, 1966.


Secretary

Item No. 1
3/14/66

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 14, 1966

Board of Directors,
Bentonville State Bank,
Bentonville, Indiana.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Bentonville State Bank, Bentonville, Indiana, of a branch at Everton, Fayette County, Indiana, provided the branch is established within one year from the date of this letter.

It is noted that in accordance with applicable statutes, the bank's capital stock will be increased by stock dividend to \$100,000, the minimum requirement for establishment of the proposed branch.

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.)

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Item No. 2
3/14/66

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



**ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD**

March 17, 1966

Board of Directors,
The Peoples Bank & Trust
Company of Chase City,
Chase City, Virginia.

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 of not to exceed \$248,000 by The Peoples Bank & Trust Company of Chase City, Chase City, Virginia, for the purpose of constructing a new bank building.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.



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

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 14, 1966

**Board of Directors,
Security Bank and Trust Company,
Lincoln Park, Michigan.**

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Security Bank and Trust Company, Lincoln Park, Michigan, of a branch at the northwest corner of the intersection of Goddard and Pardee Roads, Taylor Township, Wayne County, Michigan, 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
3/14/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 14, 1966

Board of Directors,
Wells Fargo Bank,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to November 6, 1966, the time within which Wells Fargo Bank, San Francisco, California, may establish a branch in the vicinity of the intersection of San Antonio Road and Alma Street, Mountain View, Santa Clara County, California.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Item No. 5
3/14/66

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 14, 1966.



First National City Bank,
399 Park Avenue,
New York, New York. 10022

Gentlemen:

The Board of Governors of the Federal Reserve System grants its permission to First National City Bank, New York, New York, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish a branch in the City of Seoul, Republic of Korea, and to operate and maintain such branch subject to the provisions of such Section and of Regulation M.

Unless the branch is actually established and opened for business on or before April 1, 1967, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

As you are aware, with respect to the establishment of foreign branches, funds provided by home office (whether in the form of allocated capital, advances, or otherwise) should be regarded as foreign assets for purposes of the voluntary foreign credit restraint effort.

Please inform the Board of Governors, through the Federal Reserve Bank of New York, when the branch is opened for business, furnishing information as to the exact location of the branch. The Board should also be promptly informed of any future change in location of the branch within the City of Seoul.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Item No. 6
3/14/66

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 14, 1966



Honorable K. A. Randall, Chairman,
Federal Deposit Insurance Corporation,
Washington, D. C. 20429

Dear Mr. Randall:

Reference is made to your letter of February 25, 1966, concerning the application of Williams Savings Bank, Williams, Iowa, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

There have been no corrective programs urged upon the bank, or agreed to by it, which have not been fully consummated, and there are no such programs that the Board would advise be incorporated as conditions of admitting the bank to membership in the Corporation as a nonmember of the Federal Reserve System.

Very truly yours,

Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 7
3/14/66

OFFICE OF THE CHAIRMAN

March 15, 1966

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

Dear Jim:

Your letter of March 3, 1966, requests that we lend your Office the December 31, 1965, reports of condition of those Edge and Agreement Corporations that are subsidiaries of National Banks, and that at future reporting dates such subsidiaries be requested to furnish your Office copies of the reports filed with the Board of Governors.

In order to avoid interrupting our processing of the December 31, 1965, reports, we are having copies made which will be supplied to your Office. At future reporting dates the National Bank subsidiaries will be requested to furnish your Office copies of the reports filed with the System.

Sincerely yours,

(Signed) Bill

Wm. McC. Martin, Jr.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 8
3/14/66

OFFICE OF THE CHAIRMAN

March 16, 1966

The Honorable Wright Patman, Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington, D. C. 20515

Dear Mr. Chairman:

This refers to your letter of February 21, 1966, requesting a report of the Board's views on the bill H.R. 12130, introduced by Mr. Hanna on January 18, 1966. The bill would amend section 23A of the Federal Reserve Act (12 U.S.C. 371(c)).

Briefly, section 23A limits loans or extensions of credit by a member bank to an affiliate of the bank to 10 per cent of the bank's capital and surplus for any one affiliate and 20 per cent for all affiliates; and, subject to certain exceptions, the statute requires that a loan or extension of credit by a member bank to an affiliate be secured by collateral of at least 120 per cent of the amount of the loan or credit (or 110 per cent if the collateral represents obligations of certain governmental entities in the United States). Section 23A provides exemptions from these restrictions for an Edge Act or Agreement corporation (12 U.S.C. 601-631) that is an affiliate of a member bank, and any wholly-owned subsidiary of such an affiliate. H.R. 12130 (like H.R. 613, introduced by Mr. Multer on January 4, 1965) would broaden the exemptions to cover any subsidiary of an Edge Act or Agreement corporation affiliated with a member bank, even though the subsidiary was not wholly owned by such an affiliate.

The need for legislation in this connection arises from instances in which a member bank's affiliated Edge Act or Agreement corporation has a subsidiary foreign bank which is less than wholly owned. At present, any loan or extension of credit by the member bank to the foreign bank must meet the collateral security requirement of section 23A described above. This needlessly interferes with normal commercial banking relations between the member bank and the foreign bank. The broad regulatory authority in the Board with respect to Edge Act and Agreement corporations is sufficient to ensure against any practices that would be inconsistent with the purposes of the restriction in section 23A.

The Honorable Wright Patman

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Although the Board favors the apparent objective of H.R. 12130 (and also H.R. 613), the situation understood to give rise to the need for corrective legislation, as just outlined, suggests the advisability of limiting the scope of the change in the law to the collateral security requirements of section 23A and to subsidiaries of Edge or Agreement corporations that are foreign banks. This is not true with respect to either H.R. 12130 or H.R. 613. The Board, therefore, recommends an alternative amendment to section 23A, and urges its prompt and favorable consideration by your Committee. A copy of the Board's alternative is enclosed.

It will be noted that the Board's alternative amendment to section 23A differs from the proposal enclosed with my letter to you of April 27, 1965, and with my letter of January 14, 1966, to Mr. Hanna. The alternative amendment enclosed with this letter supersedes the proposal enclosed with the letters just mentioned.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure

A BILL

To amend section 23A of the Federal Reserve Act

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, that the second paragraph of section 23A of the Federal Reserve Act, as amended (12 U.S.C. 371c), is amended by adding at the end thereof the following new sentence: "The limitations contained in the first sentence of this paragraph shall not apply to any affiliate (1) that is organized under the laws of a foreign country or a dependency or insular possession of the United States and is principally engaged in banking, and (2) that is a subsidiary of an affiliate in the capital stock of which a national banking association is authorized to invest pursuant to section 25 of this Act (12 U.S.C. 601-604a) or of an affiliate organized under section 25(a) of this Act (12 U.S.C. 611-631)."



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 9
3/14/66

OFFICE OF THE CHAIRMAN

March 16, 1966

The Honorable A. Willis Robertson,
Chairman,
Committee on Banking and Currency,
United States Senate,
Washington, D. C. 20510

Dear Mr. Chairman:

The Board recently had occasion to reconsider the draft of a proposed bill submitted with my letter to you of April 27, 1965, to amend section 23A of the Federal Reserve Act. The same proposal to amend section 23A is contained in section 10(b) of S. 2353, the bill introduced by you on August 3, 1965, to amend the Bank Holding Company Act, and in section 10(b) of S. 2561, introduced by you on September 23, 1965, to increase insurance coverage for bank deposits and savings and loan accounts.

The proposal submitted with my letter of April 27, 1965, and contained in the bills just mentioned would extend to any affiliate that is a foreign bank. However, as the text of my letter of April 27, 1965, indicated, the proposal should be limited to cases of affiliation arising through holdings of Edge Act or Agreement corporations of member banks.

Accordingly, there is enclosed herewith a draft of a proposed bill that supersedes the proposal enclosed with my letter of April 27, 1965, and included in S. 2353 and S. 2561, as above noted. The Board recommends that the proposal enclosed with this letter be enacted into law and urges its prompt and favorable consideration by your Committee.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure

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

Item No. 10
3/14/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 14, 1966

Mr. O. O. Wyrick, Vice President,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri. 63166

Dear Mr. Wyrick:

In accordance with the request contained in your letter of March 8, 1966, the Board approves the appointment of Donald L. Moses as an assistant examiner for the Federal Reserve Bank of St. Louis. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.