

Minutes for March 25, 1966

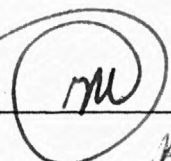

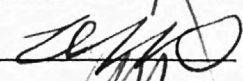

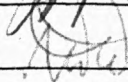
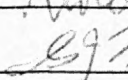
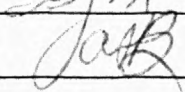
To: Members of the Board

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></u> |
| Gov. Robertson | <u></u> |
| Gov. Shepardson | <u></u> |
| Gov. Mitchell | <u></u> |
| Gov. Daane | <u></u> |
| Gov. Maisel | <u></u> |
| Gov. Brimmer | <u></u> |

Minutes of the Board of Governors of the Federal Reserve System on Friday, March 25, 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. Holland, Adviser to the Board
 Mr. Solomon, Adviser to the Board
 Mr. Molony, Assistant to the Board
 Mr. Hackley, General Counsel
 Mr. Solomon, Director, Division of Examinations
 Miss Eaton, General Assistant, Office of the
 Secretary
 Mr. Morgan, Staff Assistant, Board Members'
 Offices

Messrs. Brill, Koch, Partee, Axilrod, Gramley,
 Eckert, Ettin, and Keir, and Mrs. Peskin
 of the Division of Research and Statistics

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

Money market review. Mrs. Peskin commented on the Government securities market, after which Mr. Eckert reported on the ABA National Savings Conference he had attended recently in Chicago, commenting particularly on developments with regard to the use of savings certificates. Mr. Gemmill then reported on foreign exchange market conditions and related matters. Tables were distributed affording perspective on the money market, bank reserve utilization, and the capital market, and on direct Federal agency debt.

3/25/66

-2-

Rates on certificates of deposit. Mr. Brill reported a conversation with Mr. Duesenberry of the Council of Economic Advisers, who expressed concern about the development of a savings rate war on the West Coast, particularly in view of the action of the Home Loan Bank Board yesterday in permitting savings and loan associations to raise their rates to 5 per cent on certificates above a certain size with a six-month maturity. Apparently, Mr. Brill said, Mr. Duesenberry's comments reflected growing concern within the Council about the consequences of a rate war; he had asked whether the Board would re-examine the possibility of establishing a special rate ceiling on member bank savings certificates below a certain size. Mr. Brill had agreed to present the question to the Board. He pointed out, however, that his own attitude toward the proposal was unsympathetic. He doubted whether the problem was amenable to this kind of solution.

Governor Maisel commented that the Council should document the problem it felt existed. The Board should not be asked to take action on an unclear problem.

Mr. Solomon (Adviser) said he understood one point of concern was that savings interest rates, if ratcheted upward by the force of competition, would not tend to come down again at a time when lower rates were desirable. The strength of this argument was debatable.

In a review of the legal situation, Mr. Hackley pointed out that the statute requires the Board to fix different maximum rates on time

3/25/66

-3-

and savings deposits according to one or more of four criteria specified in the statute itself. Because of the language of the law, the Legal Division had always taken the position, and the Board itself had gone on record, that the Board could not fix different maximum rates according to any other criteria. There was, however, another approach considered last fall, namely, that the Board under its authority to define demand, time, and savings deposits might amend Regulation Q to define time deposits as including deposits only above a certain amount. The Legal Division felt that such a definition might be legally questionable. The statute did not set up any criteria for the definition of demand, time, and savings deposits, but obviously the law contemplated that the definitions would be reasonable ones. If the Board based its definition of time deposit on the amount of the deposit, it would be saying that a deposit of less than a certain amount could not be a time deposit and would, therefore, have to be considered a savings deposit. And unless savings deposits were expanded to include deposits of business organizations, then a deposit by such an organization below the stated amount, even though it had a specific maturity, would have to be a demand deposit. It seemed to the Legal Division that this would be quite unreasonable. If the Board wished to run the risk of legal attack, it would seem desirable not only to amend the time deposit definition to exclude deposits of less than a specified amount but at the same time to redefine savings deposits so as to permit a business corporation to have a savings deposit

3/25/66

-4-

up to a certain amount. The Legal Division felt, however, that either approach would be contrary to the intent of the statute.

The question of the definition of a savings deposit had been considered by the Board, Mr. Hackley recalled, in connection with a proposed revision of Regulation Q, Payment of Interest on Deposits. The New York Reserve Bank had recommended that the definition be expanded to permit business corporations to maintain savings deposits up to a specified maximum amount. However, the Board reached the conclusion that it would not want to open up savings deposits to business corporations. The Comptroller of the Currency had, of course, stated that the Board had exceeded its authority in excluding savings deposits by business concerns and had indicated that he would not object to national banks receiving such deposits. Nevertheless, the practice apparently had not become widespread among national banks.

Question was raised about the possibility of limiting time deposits to business corporations, and Mr. Hackley pointed out that there could be objections to that sort of definition on the ground that it was not reasonably based. The basis for limiting savings deposits to individuals and nonprofit organizations was that such deposits had traditionally been used for thrift purposes. To say that a time deposit might not be held by an individual could be vulnerable, he believed, to a charge that the Board had exceeded its statutory authority.

On a further question regarding the New York Reserve Bank's recommendation, Mr. Hackley recalled that, as he had indicated previously,

3/25/66

-5-

it was considered in connection with a proposed general revision of Regulation Q. The Board had never acted on the proposed revision, but he thought there was general agreement at the time against following the New York Bank's suggestion.

In a further comment, Mr. Hackley added that any treatment of time deposits of the kind suggested by Mr. Duesenberry could subject the Board to criticism for discriminating against small depositors.

Chairman Martin noted that the question apparently arose because of the action taken by the Home Loan Bank Board. The Board of Governors should keep the problem under review, but he thought the danger was potential rather than actual.

It was then agreed that Mr. Brill would tell Mr. Duesenberry that the Board had considered the matter this morning, that the Board had not disposed of it, and that the Board would like to have the specific problem documented if it was felt that any action should be taken.

At this point members of the research staff not concerned with the other items on the agenda withdrew from the meeting and the following entered the room:

Mr. Cardon, Legislative Counsel
Mr. Johnson, Director, Division of Personnel Administration
Mr. Hexter, Associate General Counsel
Messrs. O'Connell, Shay, and Hooff, Assistant General Counsel
Messrs. Leavitt and Thompson, Assistant Directors, Division
of Examinations
Messrs. Forrestal, Heyde, Plotkin, Shuter, and Smith, and
Mrs. Heller of the Legal Division
Messrs. Burton, Egertson, and Poundstone of the Division of
Examinations

3/25/66

-6-

Discount rates. The establishment without change by the Federal Reserve Banks of Philadelphia, Richmond, Cleveland, Chicago, St. Louis, Kansas City, and Dallas on March 24, 1966, 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.

Approved items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously after consideration of background material that had been made available to the Board and clarification of points of information about which members of the Board inquired:

| | <u>Item No.</u> |
|---|-----------------|
| Letter to Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, approving the establishment of a branch in Valley Station. | 1 |
| Letter to Marine Midland International Corporation, New York, New York, consenting to its exercising rights to shares of Credico, Inc., Montreal, Canada. | 2 |
| Letter to Ann Arbor Bank, Ann Arbor, Michigan, approving the establishment of an in-town branch. | 3 |
| Letter to United California Bank, Los Angeles, California, approving the establishment of a branch in San Ramon Village. | 4 |
| Letter to United California Bank, Los Angeles, California, approving the establishment of a branch at Sunset Boulevard and Spaulding Avenue, in place of an existing branch at 7550 Sunset Boulevard. | 5 |
| Letter to the Federal Reserve Bank of New York approving an amendment to the fiscal agency agreement between that Bank and the Inter-American Development Bank. | 6 |

3/25/66

-7-

Item No.

- Letter to the Chairman of the Senate Banking and Currency Committee reporting on S. 2986, a bill to extend the Defense Production Act of 1950, as amended, and for other purposes. 7
- Letter to The Bank of Virginia, Richmond, Virginia, regarding the differential in the rate of interest a member bank must exact on loans to a depositor upon the security of his time deposit. 8
- Letter to the Federal Reserve Bank of New York with regard to whether a member bank may make a loan to the wife of a depositor, secured by the husband's time deposit and for his benefit, without requiring interest on the loan to be at least 2 per cent more than the rate of interest paid on the time deposit. (It was understood that a copy of the letter would be sent to Chairman Randall of the Federal Deposit Insurance Corporation, with an appropriate covering letter, in view of the response made by a staff member of the Corporation to such an inquiry.) 9
- Letter to the Federal Reserve Bank of Atlanta approving the payment of salaries to Richard A. Sanders as Vice President and Harry C. Schiering as Assistant General Auditor at the annual rates fixed by the Board of Directors. 10
- Letter to the Federal Reserve Bank of New York interposing no objection to a leave of absence without pay for Assistant Vice President Fousek. 11
- Letter to the Federal Reserve Bank of Cleveland concerning the services of Messrs. Morrison and Landis as consultants. 12
- Letter to the National Bank of Detroit, Detroit, Michigan, regarding a proposed amendment to Regulation D, Reserves of Member Banks, to permit deduction from gross time deposits, in computing required reserves, of balances due from other banks. (With similar advice to First National Bank and Trust Company of Kalamazoo, Kalamazoo, Michigan.) 13

3/25/66

-8-

Reports on competitive factors. After discussion, reports on the competitive factors involved in the following proposed mergers or similar transactions were approved unanimously for transmittal, the conclusions being stated as follows:

To the Comptroller of the Currency regarding the proposed merger of Vina Banking Company, Vina, Alabama, into City National Bank of Russellville, Russellville, Alabama

The proposed merger of Vina Banking Company into City National Bank of Russellville would not have adverse competitive effects.

To the Comptroller of the Currency regarding the proposed merger of Clinton National Bank and Trust Company, St. Johns, St. Johns, Michigan, and Fowler State Bank, Fowler, Michigan

Without regard to the banking factors and the convenience and needs of the communities to be served, it appears that the effect of the proposed merger of Clinton National Bank and Trust Company, St. Johns, St. Johns, Michigan, and Fowler State Bank, Fowler, Michigan, is adverse to the extent that existing competition between the two institutions will be eliminated.

To the Federal Deposit Insurance Corporation regarding the proposed purchase of assets and assumption of liabilities of Northern California National Bank of San Mateo, San Mateo, California, by California Canadian Bank, San Francisco, California

The proposed purchase of assets and assumption of liabilities of Northern California National Bank of San Mateo by California Canadian Bank, San Francisco, would not have adverse competitive effects.

With reference to the Michigan case, the staff had submitted a draft conclusion which included a statement that the effect of the proposed merger would not be substantially to lessen competition, or to tend to create a monopoly, or in any other manner to restrain trade.

3/25/66

-9-

The purpose was to accommodate the Board's competitive factor reports to the standards on which proposed mergers were to be judged under the new bank merger legislation. Discussion developed a consensus that the suggested language was not the best way of remodeling the reports. It was decided not to include such language in the Michigan report, but it was agreed that the staff should continue to work on a revised format. Several suggestions were offered by members of the Board.

Eligibility of demand paper for discount and as security for advances (Items 14 and 15). There had been distributed a memorandum from the Legal Division dated March 18, 1966, on the eligibility of a new series of Commodity Credit Corporation certificates of interest as security for advances under the eighth paragraph of section 13 of the Federal Reserve Act. The memorandum pointed out there would be no difficulty in reaching a finding of eligibility except for the fact that some of the loans of which the certificates would represent an interest were in the form of demand notes. This would necessitate reversal of a ruling of the Board in 1917, which held that demand notes were ineligible for discount.

It was the recently-stated opinion of the Federal Reserve Bank of New York's legal staff, in which the Board's Legal Division concurred, that the 1917 ruling was legally incorrect and that the Board would be justified in holding that demand paper was eligible for discount provided it satisfied the other requirements of the statute and the Board's Regulation A, Advances and Discounts by Federal Reserve Banks. Since

3/25/66

-10-

the CCC certificates of interest otherwise satisfied the eligibility requirements, such a ruling by the Board would render those obligations eligible as security for advances.

It was the Legal Division's recommendation that the Board reverse the 1917 ruling notwithstanding an amendment to the Federal Reserve Act in 1923, apparently enacted because of the 1917 ruling, which provided that only a limited category of bills of exchange payable at sight or on demand would be eligible for discount. It was recommended that an interpretation declaring demand paper eligible for discount be published in the Federal Register and the Federal Reserve Bulletin.

Remarks by members of the staff included comments on the legal points involved and comments to the effect that reversal of the 1917 ruling would be harmonious with the objectives of the current study of the discount mechanism.

Unanimous approval then was given to a letter to the Commodity Credit Corporation (copy attached as Item No. 14). Unanimous approval also was given to the issuance of an interpretation with respect to the demand paper question. A copy of the interpretation, in the form subsequently transmitted to the Federal Register for publication, is attached as Item No. 15.

Violation of proxy solicitation rules (Items 16 and 17). There had been distributed a memorandum from the Legal Division dated March 18, 1966, regarding a violation of proxy solicitation rules by The Elyria Savings & Trust Company, Elyria, Ohio. Effective June 28, 1965, Elyria

3/25/66

-11-

Savings & Trust registered its capital stock pursuant to section 12(g) of the Securities Exchange Act of 1934 and the Board's Regulation F, Securities of Member State Banks, and became subject to other reporting provisions of Regulation F, including the requirements governing the solicitation of proxies. Effective March 1, 1966, Elyria converted from a State bank to a national bank, after obtaining a vote of approval by its stockholders at a meeting held February 2, 1966, in connection with which proxies were solicited by management and, presumably, obtained and voted. No attempt evidently had been made to comply with the provisions of Regulation F in the preparation of the proxy material.

Mr. Plotkin, in reviewing the matter, pointed out there was no question in the staff's opinion but that a violation of law had occurred. It was recommended that the Board send the bank a letter notifying it of the violation and suggesting ratification by its stockholders of the earlier action, and also that the Board send a letter to the Comptroller of the Currency enclosing a copy of its letter to Elyria. An alternative procedure would be to petition the U.S. District Court for an order declaring invalid the proxies obtained by the bank in connection with the stockholders' meeting. However, since this was the first year that the proxy solicitation rules were in effect and since it appeared that the bank's violation was inadvertent, it was not believed that such action was warranted.

In reply to questions, members of the staff expressed the view that it was highly unlikely that the result of the stockholders' meeting

3/25/66

-12-

would have been different had the proxy solicitation rules been observed. They also pointed out that the question of what further steps, if any, should be taken if the bank did not correct the violation would be a matter for determination in the discretion of the administering agency (the Board). The point was made by a member of the Board that if the step was taken of calling the violation to the attention of the bank, and if the bank did not respond, the Board should be prepared to take whatever further action then seemed appropriate.

After further discussion, unanimous approval was given to a letter to Elyria Savings & Trust Company in the form attached to these minutes as Item No. 16, and to a letter to the Comptroller of the Currency as attached to these minutes as Item No. 17.

Application of Security New York State Corporation (Items 18 and 19). On February 14, 1966, the Board approved the application of Security New York State Corporation, Rochester, New York, to become a bank holding company through acquisition of up to 100 per cent of the outstanding voting shares of Security Trust Company of Rochester, Rochester, New York, and The State Bank of Seneca Falls, N.Y., Seneca Falls, New York.

The issuance of the order and statement was deferred at the meeting on March 21 pending the availability of a revised draft statement reflecting several suggestions made at that time. Discussion of the revised draft at this meeting related principally to the question

3/25/66

-13-

whether to include in the statement several paragraphs concerning a letter dated February 18, 1966, in which the Comptroller of the Currency expressed opposition to two other New York bank holding company applications on which the decisions had not yet been announced by the Board. Although the Comptroller had not referred to the Security application in his letter, the basis of his opposition to the other applications was attributable to circumstances similar to those involved in the Security case. Therefore, Mr. O'Connell recommended that a refutation of the Comptroller's argument be set forth in the Security statement, and it was agreed that this should be done. As to the Security order, it was agreed that it should contain a notation that Governor Brimmer did not participate in the action.

The issuance of the order and statement then was authorized; copies of the documents, as issued, are attached as Items 18 and 19.

Request of Central Bank of the Philippines. A request had been received under date of March 9, 1966, from the Governor of the Central Bank of the Philippines for assignment of an expert from the Federal Reserve System to help set up the mechanics and techniques of trading in government securities and to advise on procedures, techniques, policies, and strategy of open market operations.

After some discussion, it was agreed to solicit the views of the Federal Reserve Bank of New York on possibilities for complying with the request.

3/25/66

-14-

Suggested amendments to Bank Holding Company Act. A draft of letter to Chairman Robertson of the Senate Banking and Currency Committee concerning certain amendments to section 3 of the Bank Holding Company Act suggested by Senator Douglas at a Subcommittee hearing on March 16 had been distributed.

As analyzed in the proposed letter, the effect of the suggested amendments would be to forbid a merger involving a holding company subsidiary bank located in a State other than the holding company's home State. The view would be expressed that such a prohibition might be unnecessarily severe, but the letter would state that the Board favored changes in the law to require Board approval (exclusively) of any mergers involving holding company subsidiary banks. A draft of amendment to the Bank Merger Act would be transmitted.

Mr. Cardon pointed out that the draft letter attempted to make clear for the record the Board's position, which was not made clear at the Subcommittee hearing.

Mr. Hackley then reviewed certain suggestions on the proposed letter that Governor Robertson had discussed with him. As to mergers of subsidiary banks outside the home State, the thought was to indicate that in such cases the merger would be scrutinized more severely than a merger of a subsidiary bank located in the home State. Mr. Hackley was not sure how that suggestion could best be implemented; perhaps by a statement in the Committee report. The other suggestion was that the

3/25/66

-15-

objective of making all mergers of holding company subsidiary banks subject to Board approval might be accomplished by amendment of the Bank Holding Company Act rather than the Bank Merger Act. An alternative would be to refrain from specifying how the objective could best be accomplished, leaving that for the Committee and its staff to decide.

There followed discussion of the complexity of amendments to the Bank Holding Company Act that might be required, and Governor Robertson suggested that the matter be presented in as palatable a way as possible, perhaps through offering alternative possibilities for consideration.

At the conclusion of the discussion, it was understood that a revised draft letter would be prepared for the Board's consideration.

The meeting continued from this point with limited staff attendance.

Foreign travel. The Board authorized travel by John E. Reynolds, Adviser, Division of International Finance, to Paris to attend a meeting of Working Party 2 of the Organization for Economic Cooperation and Development to be held March 28-30, 1966, with per diem at rates prescribed by the Standardized Government Travel Regulations.

Latin American assignment. An inquiry had been received, on behalf of the Organization of Central American States, concerning the availability of Vice President Vergari of the Federal Reserve Bank of Philadelphia to attend a seminar to be held in San Salvador April 18-23, 1966, on the use of computers by Central American central banks

3/25/66

-16-

for statistical purposes. It having been ascertained that Mr. Vergari would not be available, the Board agreed to suggest the name of David Staiger of the Division of Data Processing.

The meeting then adjourned.

Secretary's Notes: On March 23, 1966, a letter was sent to First National City Bank, New York, New York, extending to October 1, 1966, the time for establishment of a branch in Antwerp, Belgium. (A letter of March 12, 1965, had acknowledged receipt of the bank's notice of intent to establish this branch.)

On March 22, 1966, Governor Shepardson approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Richmond (attached Item No. 20) approving the appointment of L. Rex Dazey as assistant examiner.

Memoranda recommending the following actions relating to the Board's staff:

Salary increases

J. William Via, Jr., Senior Attorney, Legal Division, from \$11,723 to \$12,510 per annum, effective March 27, 1966.

Linda S. Blumberg, Programmer (Trainee), Division of Research and Statistics, from \$5,352 to \$5,702 per annum, with a change in title to Digital Computer Programmer, effective March 27, 1966.

Clayton B. Stinson, Assistant Head Messenger, Division of Administrative Services, from \$3,943 to \$4,289 per annum, effective April 24, 1966.

On March 23, 1966, Governor Shepardson approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

3/25/66

-17-

Salary increase

Constance J. Comella, Stenographer, Division of Administrative Services, from \$4,641 to \$5,181 per annum, with a change in title to Secretary, effective April 24, 1966.

Transfer

Levon H. Garabedian, from the position of Administrative Assistant, Division of International Finance, to the position of Chief, Division Administration Section, Division of Research and Statistics, with an increase in basic annual salary from \$9,267 to \$10,619, effective upon assuming his new duties.

On March 24, 1966, Governor Shepardson approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Philadelphia (attached Item No. 21) approving the appointment of James C. Kogel as assistant examiner.

Letter to the Presidents of all Federal Reserve Banks (attached Item No. 22) transmitting forms to be used by State member banks and their affiliates in submitting reports of condition as of the next call date.

Memorandum from the Division of Research and Statistics dated March 18, 1966, recommending that two additional economist positions be established in the National Income, Labor Force, and Trade Section. It was understood that the positions vacated by the persons transferred into the newly established positions would be abolished.

Memorandum from the Division of Research and Statistics dated March 18, 1966, recommending that a "visiting professor" position be established in the National Income, Labor Force, and Trade Section.

Memoranda recommending the following actions relating to the Board's staff:

Appointments

Reginald Haynes as Messenger, Division of Administrative Services, with basic annual salary at the rate of \$3,507, effective the date of entrance upon duty.

3/25/66

-18-

Appointments (continued)

Stanley B. Kay as Summer Law Clerk, Legal Division, with basic annual salary at the rate of \$5,181, effective the date of entrance upon duty.

Salary increase

Walter Jordan, Jr., Cook-Trainee, Division of Administrative Services, from \$4,569 to \$4,953 per annum, with a change in title to Cook, effective April 24, 1966.

Acceptance of resignation

Carl S. Hackney, Messenger, Division of Administrative Services, effective at the close of business April 6, 1966.

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

Salary increases, effective March 27, 1966

| <u>Name and title</u> | <u>Division</u> | <u>Basic annual salary</u> | |
|--|-----------------|----------------------------|-----------|
| | | <u>From</u> | <u>To</u> |
| <u>Office of the Secretary</u> | | | |
| Mary L. Scott, Senior Indexing and Reference Assistant | | \$ 6,086 | \$ 6,278 |
| Petronella van der Vossen, Stenographer | | 4,641 | 4,797 |
| <u>Legal</u> | | | |
| Jacqueline L. Gilmore, Stenographer | | 4,641 | 4,797 |
| <u>Research and Statistics</u> | | | |
| Julia G. Back, Library Assistant | | 4,953 | 5,352 |
| Helen D. Cunney, Research Assistant | | 6,476 | 6,683 |
| Eleanor S. Frase, Senior Economist | | 18,825 | 19,415 |
| Patric H. Hendershott, Economist | | 10,619 | 10,987 |
| <u>International Finance</u> | | | |
| Helen B. Junz, Economist | | 15,188 | 15,696 |

3/25/66

-19-

Salary increases, effective March 27, 1966 (continued)

| <u>Name and title</u> | <u>Division</u> | <u>Basic annual salary</u> | |
|--|-----------------|----------------------------|-----------|
| | | <u>From</u> | <u>To</u> |
| <u>Examinations</u> | | | |
| M. Patricia McShane, Assistant Review Examiner | | \$ 8,961 | \$ 9,267 |
| Irwin W. Robinson, Senior Federal Reserve Examiner (change in title from Federal Reserve Examiner) | | 11,723 | 12,510 |
| <u>Administrative Services</u> | | | |
| Quincy W. Barnes, Operator (Xerox-Mimeograph) | | 5,221 | 5,491 |
| Aaron Dortch, Foreman-Operator | | 6,053 | 6,365 |
| John D. Smith, Assistant to the Director | | 12,945 | 13,380 |
| Marie Willard, Cafeteria Helper | | 3,626 | 3,745 |
| <u>Data Processing</u> | | | |
| Dorothy L. Folsom, Draftsman | | 4,953 | 5,352 |
| Mack Richardson Rowe, Chief, Economic Graphics Section | | 10,987 | 11,723 |
| Russell H. Tharp, Programmer | | 7,479 | 7,733 |
| Theodore A. Veenstra, Jr., Chief, Financial Statistics Section | | 15,188 | 15,696 |

Transfer

Ramona K. Harlow-Rao, from the position of Key Punch Supervisor in the Division of Data Processing to the position of Statistical Clerk in the Division of Research and Statistics, with no change in basic annual salary at the rate of \$4,953, effective March 28, 1966.

Acceptance of resignation

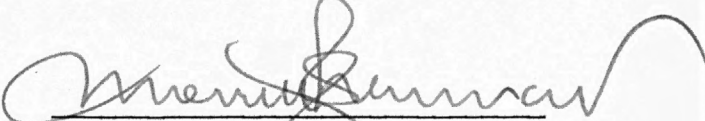
Harlow D. C. Osborne, Chief, Consumer Credit and Finances Section, Division of Research and Statistics, effective at the close of business April 1, 1966.

There was sent today to Mr. Antonio Fuste of Hyattsville, Maryland, a letter confirming arrangements for him to conduct a course in Conversational Spanish for members of the

3/25/66

- 20 -

Board's staff, as an activity of the Board's Employee Training and Development Program, at a fee of \$7 for each session conducted. (The agreement with Mr. Fuste was in lieu of a previous agreement with English Language Services, Inc., to provide a similar course.)



Secretary

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

Item No. 1
3/25/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 25, 1966

Board of Directors,
Citizens Fidelity Bank and Trust Company,
Louisville, Kentucky.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, of a branch at 10111 Dixie Highway, Valley Station (unincorporated area), Jefferson County, Kentucky, 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.)

Item No. 2
3/25/66BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 25, 1966.



Marine Midland
International Corporation,
120 Broadway,
New York, New York. 10005

Gentlemen:

In response to your letter of February 8, 1966, the Board of Governors grants consent for Marine Midland International Corporation ("MMIC") to exercise convertibility rights to acquire Class "A" shares of Credico, Inc. ("Credico"), Montreal, Canada, to which MMIC has become entitled as holder of convertible subordinated debentures Series "B" of Credico, to the extent that MMIC's total investment in shares of Credico is in excess of US\$200,000.

Please advise the Board of Governors as provided in Section 211.8(d) of Regulation K of any share acquisitions made under the above consent.

The foregoing consent is given with the understanding that the investment now being approved, combined with other foreign loans and investments of your Corporation, will not cause the total of such loans and investments to exceed the guidelines established under the voluntary foreign credit restraint effort now in effect and that due consideration is being given to the priorities contained therein.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Item No. 3
3/25/66

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 25, 1966

Board of Directors,
Ann Arbor Bank,
Ann Arbor, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Ann Arbor Bank, Ann Arbor, Michigan, of a branch at the northwest corner of the intersection of North Ashley and West Huron Streets, Ann Arbor, 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
3/25/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 25, 1966

Board of Directors,
United California Bank,
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by United California Bank, Los Angeles, California, of a branch in the vicinity of the intersection of Alcosta Boulevard and Village Parkway, San Ramon Village, Contra Costa County, California, 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. 5
3/25/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 25, 1966

Board of Directors,
United California Bank,
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by United California Bank, Los Angeles, California, at the intersection of Sunset Boulevard and Spaulding Avenue, Los Angeles, California, provided such branch is established within one year from the date of this letter and provided operations at the bank's existing office at 7550 Sunset Boulevard are discontinued simultaneously with the opening of the new office.

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
3/25/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 28, 1966.

Mr. H. A. Bilby, Vice President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Bilby:

This refers to your letter of March 17, 1966, and enclosures, concerning the proposed issuance by the Inter-American Development Bank of Short-Term Dollar Bonds, First Issue, in the aggregate principal amount of \$60 million, consisting of One-Year Bonds, due April 15, 1967; Two-Year Bonds, due April 15, 1968; and Five-Year Bonds, due April 15, 1971. You advise of the Inter-American Development Bank's proposal to appoint the Federal Reserve Bank of New York its Fiscal Agent through amendment of Schedule A of the Fiscal Agency Agreement, dated September 7, 1962, between Inter-American Development Bank and your Bank, and request the Board's approval of your Bank's acting in the proposed capacity.

The Board of Governors approves of your Bank acting as Fiscal Agent in respect to the proposed issue by the Inter-American Development Bank of Short-Term Dollar Bonds, First Issue, and approves the execution and delivery by your Bank of an Agreement with the Inter-American Development Bank, substantially in the form of the draft enclosed in your March 17 letter of Supplement No. 3 to the Fiscal Agency Agreement, dated September 7, 1962, between your Bank and Inter-American Development Bank.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 7
3/25/66

OFFICE OF THE CHAIRMAN

March 29, 1966

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

Dear Mr. Chairman:

This is in response to your request of March 3, 1966, for the Board's views with respect to the bill, S. 2986, "To extend the Defense Production Act of 1950, as amended, and for other purposes."

The only provisions of the Act which directly concern the responsibilities of the Board are contained in Title III relating to Government-guaranteed loans for defense production. These loans, which are made through the agency of the Federal Reserve Banks pursuant to Executive Order No. 10161 dated September 9, 1950, are the subject of the Board's Regulation V.

Since the Office of Emergency Planning considers that this authority in the Act is essential to the support of current national defense activities, the Board would have no objection to the extension of the authority for an additional four years as provided by the bill.

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. 8
3/25/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 25, 1966.



Mr. Aubrey V. Kidd, Vice President,
The Bank of Virginia,
800 East Main Street,
Richmond 14, Virginia.

Dear Mr. Kidd:

This refers to your letter of March 7, 1966, with respect to the 2 per cent differential in the rate of interest a member bank must exact on loans to a depositor upon the security of his time deposit.

The Board appreciates the public relations problem that might occur when your bank suggests that the interest on the deposit be reduced so that the interest on the loan will not exceed the maximum prescribed by State law and still be 2 per cent more than the interest paid on the deposit. When this problem first came to the Board's attention, your suggestion that the regulation be amended to permit the interest charged on such loans to be either 2 per cent more than the rate of interest paid on the deposit or the maximum permitted by State law, whichever is less, was considered.

The purpose of this requirement of the regulation is to prevent the bank, in effect, from paying a time deposit before its maturity by means of a loan, secured by such deposit, bearing interest substantially the same as that paid on the deposit. The Board has concluded that this 2 per cent differential is necessary to maintain the distinction between time and demand deposits. This is particularly true in Virginia where the legal rate on loans is 6 per cent and the bank may pay as much as 5-1/2 per cent on time deposits. The arrangement you suggest could practically nullify the distinction between time and demand deposits.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 9
3/25/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 25, 1966.

Mr. William H. Braun, Jr.,
Assistant Vice President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Braun:

This refers to your letter of March 11, 1966, presenting the question whether a member bank may make a loan to the wife of a depositor, secured by the husband's time deposit and for his benefit, without requiring interest on the loan to be at least 2 per cent more than the interest paid on the time deposit. You enclosed a copy of a letter from the General Counsel of the Federal Deposit Insurance Corporation to a firm of attorneys in Rochester, New York, which indicated that such a transaction would not be in violation of the first paragraph of section 329.4(d) of the Corporation's regulation.

Section 217.4(e) of Regulation Q, which contains identical language, provides that a member bank may make a loan to the depositor upon the security of his time deposit provided that the rate of interest on such loan shall be not less than 2 per cent per annum in excess of the rate of interest on the time deposit. The precise language of this provision refers only to a loan "to the depositor" upon the security of "his time deposit". In the case presented, however, the bank suggested to the depositor that the arrangement described be followed in order to avoid his payment of a higher rate of interest. Such an arrangement clearly would circumvent a requirement of the regulation and defeat its purpose. Accordingly, it is the Board's opinion that a loan made under these circumstances must bear interest of not less than 2 per cent in excess of the interest paid on the time deposit.

This does not mean that every loan to a wife secured by her husband's time deposit must require the 2 per cent differential. For example, the wife might operate a separate business and would

Mr. William H. Braun, Jr.

-2-

repay the loan from independent means. Each case must be decided upon the particular facts and circumstances. However, the bank should satisfy itself that the proceeds of the loan are not for the husband's benefit and the hypothecation of the time deposit serves the same purpose as an accommodation endorsement.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 10
3/25/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 25, 1966

CONFIDENTIAL (FR)

Mr. Harold T. Patterson, President,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia. 30303

Dear Mr. Patterson:

The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of Atlanta, for the period of April 15 through December 31, 1966, at rates indicated, which are those fixed by your Board of Directors as reported in your letter of March 11.

| <u>Name</u> | <u>Title</u> | <u>Annual Salary</u> |
|--------------------|---------------------------|----------------------|
| Richard A. Sanders | Vice President | \$16,500 |
| Harry C. Schiering | Assistant General Auditor | .11,800 |

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 11
3/25/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 25, 1966

Mr. Richard A. Debs, Secretary,
Federal Reserve Bank of New York,
New York, New York. 10045.

Dear Mr. Debs:

The Board of Governors will interpose no objection to the leave of absence during March 28 through April 1, 1966, for Mr. Peter Fousek as reported in your letter of March 18.

It is noted that Mr. Fousek will conduct a series of lectures and seminars for the Economic Development Institute of the International Bank for Reconstruction and Development in Washington, D. C., and that he will receive compensation from that organization for his services.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 12
3/25/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 25, 1966



Mr. W. Braddock Hickman, President,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio. 44101

Dear Brad:

Reference is made to your letter of March 15, 1966, reviewing the services of Martin Morrison and Laird Landis as consultants to the Federal Reserve Bank of Cleveland. The Board notes that the Bank has benefited from their work to date, and that you will review their situation again in six months.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 13
3/25/66

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 25, 1966.

Mr. Ray D. Young, Vice President
and Cashier,
National Bank of Detroit,
Detroit, Michigan. 48232

Dear Mr. Young:

This refers to your letter of February 9, 1966, requesting the Board to approve an amendment to section 204.2(b) of Regulation D to permit member banks to deduct from the amount of their gross time deposits the amounts of "time deposit balances due from other member banks."

The tenth paragraph of section 19 of the Federal Reserve Act (12 U.S.C. 465) provides as follows:

"In estimating the reserve balances required by this Act, member banks may deduct from the amount of their gross demand deposits the amounts of balances due from other banks . . . and cash items in process of collection payable immediately upon presentation in the United States, within the meaning of these terms as defined by the Board of Governors of the Federal Reserve System." (Emphasis added.)

In the absence of an enabling amendment to section 19, the Board is unable to permit, by regulation or otherwise, a deduction for time deposits due from other banks. Any such change must necessarily be accomplished by an amendment to the statute.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 14
3/25/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 25, 1966



Mr. J. J. Somers, Controller,
Commodity Credit Corporation,
United States Department of Agriculture,
Washington, D. C. 20250

Dear Mr. Somers:

This is in reply to your letter of March 11, 1966, requesting the Board to declare a special series of certificates of interest, which has recently been issued by the Commodity Credit Corporation ("CCC"), eligible as security for advances under the eighth paragraph of section 13 of the Federal Reserve Act (12 U.S.C. 347).

It is understood that the new special series of certificates represents an interest in a pool of notes evidencing outstanding loans made under price support programs of CCC. Currently, CCC issues certificates of interest which evidence participation in pools of price support program loans which are interest bearing and transferable only among banking institutions. The new special series of certificates are noninterest bearing and are payable to bearer. It is further understood that in some cases the underlying notes are payable on demand, and that the loans which have a specified maturity date will mature within nine months.

Section 201.2(a)(2) of Regulation A (12 CFR 201.2) provides as follows:

"In the event notes which evidence loans made pursuant to a commodity loan program of the Commodity Credit Corporation and which comply with the maturity requirements of § 201.3(a) have been deposited in a pool of notes operated by the Commodity Credit Corporation, the certificate of interest issued by the Commodity Credit Corporation which evidences the deposit of such notes may be accepted as security for an advance made to a member bank under this paragraph."

Mr. J. J. Somers

-2-

In a 1917 ruling, the Board took the position that demand paper is ineligible for discount under the provisions of the Federal Reserve Act because such paper is not in terms payable within the prescribed maturity period but, at the option of the holder, may not be presented for payment until after that time (1917 Fed. Res. Bull. 378). On the basis of that ruling, the new certificates would not fall within the provisions of the section of Regulation A above quoted since the underlying notes would not comply with the maturity requirements of the statute and the regulation.

However, the Board has reconsidered its previous ruling and has concluded that, since demand paper as a matter of law is due and payable on the date of its issue, such paper would satisfy the maturity requirements of the statute. It is the Board's view, therefore, that demand paper which otherwise meets the eligibility requirements of the Federal Reserve Act and Regulation A is eligible for discount and as security for advances.

Accordingly, the special series of certificates of interest of the kind described in your letter will be considered eligible as security for advances by Reserve Banks to member banks under the eighth paragraph of section 13 of the Federal Reserve Act.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

TITLE 12 - BANKS AND BANKING

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. A]

PART 201 - ADVANCES AND DISCOUNTS
BY FEDERAL RESERVE BANKS

Demand Paper

§ 201.107 Eligibility of demand paper for discount and as security
for advances by Reserve Banks.

(a) The Board of Governors has reconsidered a ruling made in 1917 that demand notes are ineligible for discount under the provisions of the Federal Reserve Act. (1917 Federal Reserve Bulletin 378.)

(b) The basis of that ruling was the provision in the second paragraph of section 13 of the Federal Reserve Act that notes, drafts, and bills of exchange must have a maturity at the time of discount of not more than 90 days, exclusive of grace. The ruling stated that "a demand note or bill is not eligible under the provisions of the act, since it is not in terms payable within the prescribed 90 days, but, at the option of the holder, may not be presented for payment until after that time."

(c) It is well settled as a matter of law, however, that demand paper is due and payable on the date of its issue. The generally accepted legal view is stated in Beutel's Brannan on Negotiable Instruments Law, at page 305, as follows:

-2-

"The words 'on demand' serve the same purpose as words making instruments payable at a specified time. They fix maturity of the obligation and do not make demand necessary, but mean that the instrument is due, payable and matured when made and delivered."

(d) Accordingly, the Board has concluded that, since demand paper is due and payable on the date of its issue, it satisfies the maturity requirements of the statute. Demand paper which otherwise meets the eligibility requirements of the Federal Reserve Act and this part (Regulation A) therefore, is eligible for discount and as security for advances by Reserve Banks.

(12 U.S.C. 248(i). Interprets 12 U.S.C. 343.)

Dated at Washington, D. C., this 25th day of March, 1966.

By order of the Board of Governors.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 16
3/25/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 25, 1966

The Elyria Savings & Trust Company,
103 Court Street,
Elyria, Ohio. 44305

Gentlemen:

It has recently come to the attention of the Board of Governors that The Elyria Savings & Trust Company ("bank") converted from a State to a national bank charter, effective March 1, 1966. The proposed conversion was approved by the bank's shareholders at the bank's annual meeting, held on February 2, 1966, in connection with which the bank's management solicited proxies from its shareholders.

The capital stock of the bank became registered under section 12(g) of the Securities Exchange Act of 1934 ("1934 Act") on June 28, 1965, and, as the bank was advised by the Board's letter dated June 14, 1965, it thereupon became subject to section 14 of the 1934 Act and section 206.5 of Federal Reserve Regulation F, "Securities of Member State Banks". Section 14(a) of the 1934 Act, in effect, provides that it shall be unlawful for a member State bank to solicit proxies with respect to its registered stock in contravention of the rules and regulations adopted by the Board thereunder. Section 206.5 and Form F-5 of Regulation F contain such rules and regulations.

As stated by the U. S. Supreme Court in J. I. Case v. Borak, 377 U. S. 426, 430 (1964):

"The purpose of § 14(a) is to prevent management or others from obtaining authorization for corporate action by means of deceptive or inadequate disclosure in proxy solicitation 'Too often proxies are solicited without explanation to the stockholder of the real nature of the questions for which authority to cast his vote is sought.' S. Rep. No. 792, 73rd Cong., 2d Sess., 12."

No attempt appears to have been made by the bank to comply with the provisions of Regulation F with respect to the proxy

The Elyria Savings & Trust Company -2-

solicitation relating to the annual meeting at which the conversion to a national charter was approved. Of primary importance, most of the information required to be set forth in the proxy statement, as prescribed by Federal Reserve Form F-5, has been omitted. In addition, the bank did not comply with the requirements of section 206.5(c) and 206.5(f) of Regulation F,^{1/} relating to the mailing of the bank's annual report to stockholders^{1/} and the filing of such annual report and proxy soliciting material with the Board.

In particular, the Board is concerned with the disclosure, or more accurately, lack of disclosure, in the bank's proxy statement concerning the proposal to convert to a national charter. It is the Board's opinion that such description is materially inadequate to explain to stockholders "the real nature of the questions for which authority to cast his vote is sought". J. I. Case v. Borak, supra. At a minimum, the following items should have been fully discussed:

(a) the principal advantages and disadvantages to the bank of the proposed conversion, including future operations proposed but not presently conducted by the bank;

(b) a comparison of the legal attributes of the bank's stock as a State bank and as a national bank;

(c) changes in capitalization and other material charter changes, if any;

(d) dissenter's rights, if any;

(e) the tax effects of the transaction on the bank's stockholders; and

(f) any other changes that may materially affect the rights of the bank's stockholders.

In addition, the statement, in the bank's proxy statement, that the conversion will provide "for better methods for obtaining capital funds and, therefore, increase its [the bank's] lending limits" would appear to be materially misleading, in the absence of more specific information.

^{1/}It should also be noted that the financial statements contained in the bank's annual report to stockholders do not meet the requirements of Regulation F. See interpretation of the Board of Governors, 1965 F. R. Bulletin 1707 (December).

The Elyria Savings & Trust Company -3-

Accordingly, it is the Board's opinion that the proxies in question were solicited in violation of section 14(a) of the 1934 Act. In addition to the penalties for this violation specifically provided by the 1934 Act, the bank should be aware that the U. S. Supreme Court has held that a stockholder may have a private right to relief, including the remedy of rescission, for this type of violation. J. I. Case v. Borak, supra.

Since it appears that the legality of the conversion from a State bank to a national bank is not free from doubt, it is suggested that the bank call a special meeting of stockholders to ratify all actions previously taken and resolicit proxies, in accordance with the requirements of Federal Reserve Regulation F, in connection therewith.

A copy of this letter is being sent to the Comptroller of the Currency.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 17
3/25/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 25, 1966

Comptroller of the Currency,
Treasury Department,
Washington, D. C. 20220

Dear Mr. Comptroller:

Enclosed is a copy of the Board's letter, dated today, to The Elyria Savings & Trust Company, Elyria, Ohio, with respect to its recent conversion to a national bank.

In view of judicial decisions with respect to corporate action taken without compliance with applicable requirements of law or governmental regulation, it appears that the legal status of the Elyria institution as a national bank is open to question. Particularly relevant is the decision of the U. S. Supreme Court in J. I. Case v. Borak (cited in the enclosed letter), which relates specifically to corporate action taken in violation of section 14(a) of the Securities Exchange Act of 1934 and regulations pursuant thereto.

This matter is brought to the attention of your Office, as well as the bank itself, in order that the supervisory authorities may assist in developing a course of action that will remedy the existing situation, as far as possible.

Pursuant to the request of your Office of March 2, 1966, there are enclosed two copies of the initial stock ownership reports (Federal Reserve Forms F-7) filed by the bank's officers and directors. No statements of changes in beneficial ownership (Federal Reserve Forms F-8) have been filed.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures

Item No. 18
3/25/66

UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C.

In the Matter of the Application of
SECURITY NEW YORK STATE CORPORATION,
ROCHESTER, NEW YORK,
for approval of action to become a bank
holding company through the acquisition
of up to 100 per cent of the outstanding
voting shares of Security Trust Company
of Rochester, Rochester, New York, and
The State Bank of Seneca Falls, N. Y.,
Seneca Falls, New York.

ORDER APPROVING APPLICATION UNDER
BANK HOLDING COMPANY ACT

There has come before the Board of Governors, pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(a)(1)) and section 222.4(a)(1) of Federal Reserve Regulation Y (12 CFR 222.4(a)(1)), an application by Security New York State Corporation, Rochester, New York, for the Board's prior approval of action whereby Applicant would become a bank holding company through the acquisition of up to 100 per cent of the outstanding voting shares of Security Trust Company of Rochester, Rochester, New York, and The State Bank of Seneca Falls, N. Y., Seneca Falls, New York.

In accordance with section 3(b) of the Act, the Board notified the New York State Superintendent of Banks of the receipt of the application and requested his views and recommendation. The Superintendent and the New York State Banking Board recommended approval of the application.

Notice of receipt of the application was published in the Federal Register on November 3, 1965 (30 Federal Register 13914), providing an opportunity for interested persons to submit comments and views with respect to 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 25th day of March, 1966.

By order of the Board of Governors.

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

Governor Brimmer was not a member of the Board on the date of the Board's decision.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 19
3/25/66BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEMAPPLICATION BY SECURITY NEW YORK STATE
CORPORATION, ROCHESTER, NEW YORK, FOR PRIOR APPROVAL
OF ACTION TO BECOME A BANK HOLDING COMPANYSTATEMENT

Security New York State Corporation, Rochester, New York ("Applicant"), has filed with the Board, pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956 ("the Act"), an application for approval of action to become a bank holding company through the acquisition of up to 100 per cent of the outstanding voting shares of Security Trust Company of Rochester, Rochester, New York ("Security Trust"), and The State Bank of Seneca Falls, N. Y., Seneca Falls, New York ("Seneca").

Views and recommendation of supervisory authority. - As required by section 3(b) of the Act, notice of receipt of the application was sent to the New York State Superintendent of Banks requesting his views and recommendation. The New York State Superintendent of Banks and the New York Banking Board recommended approval of the application and submitted to the Board a copy of a memorandum from the Superintendent addressed to the New York Banking Board discussing the reasons for approval of the proposal.

Statutory factors. - Section 3(c) of the Act requires that the Board, in determining whether to approve this application, take into consideration the following five factors: (1) the financial history and condition of the proposed 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 area concerned; and (5) whether or not the effect of the proposal 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.

Financial history and condition, and prospects of Applicant and the banks concerned. - Applicant, being newly formed, has no financial history. Its condition and prospects depend in major respects upon those of its proposed subsidiary banks. For the reasons hereafter noted, Applicant's pro forma financial condition and prospects are satisfactory.

Security Trust was organized in 1892 under State charter and, at June 30, 1965,^{1/} operated 23 offices^{2/} in New York Banking District Eight. It offers a full range of commercial banking services, including corporate and personal trust facilities. With approximately \$260 million of deposits, it is the third largest bank in the State's Eighth Banking District, and serves all six counties in that district. Applicant

^{1/} Unless otherwise indicated, all bank deposit and loan data are as of this date, and data as to banking offices are as of December 31, 1964.

^{2/} Two additional offices have been approved by the Board, but are not yet in operation.

states that Security Trust's deposits have almost doubled in the five years preceding the application, without benefit of mergers or consolidations. The record shows that its net operating earnings increased from about \$1.3 million in 1959 to about \$1.7 million in 1964. The financial history and condition of Security Trust are considered satisfactory.

Security Trust's prospects, related as they are to a prosperous, rapidly growing section of upstate New York, appear satisfactory whether Security Trust operates as a subsidiary of Applicant or continues its independent operation. Since New York State law now prevents Security Trust from inter-district branching, Security Trust's prospects are enhanced by Applicant's plan to make Security Trust the leading bank in a regional holding company system that will serve not only the Finger Lakes region,^{3/} which includes District Eight and extends across several other banking districts, but will serve also the greater Rochester economic area.^{4/}

Seneca, under a State charter received in 1902, operates a single office in District Six and offers the usual type of small-bank services. Deposits are reported to have grown from under \$7 million in 1959 to approximately \$11 million in 1965. During the five years ending June 30, 1965, loans reportedly increased about

^{3/} This area, considered to extend between Buffalo and Syracuse, and from the Pennsylvania border to Lake Ontario, includes, in addition to District Eight, parts of Districts Six, Seven, and Nine.

^{4/} As defined by the New York State Department of Commerce, this area includes nine counties, of which three are in District Nine, one in District Six, and five in District Eight.

60 per cent, to over \$6 million. The increase in earnings shown for Seneca (from about \$51,000 in 1962 to approximately \$70,000 in 1964) compares favorably with that of banks of comparable size. On the record presented, the financial history and condition of Seneca are satisfactory.

Seneca's prospects, like those of Security Trust, appear satisfactory whether Seneca becomes a subsidiary of Applicant or remains an independent bank. The area served by Seneca, part of the greater Rochester economic area, has experienced a gradual but steady economic development, and, like the Rochester area, its prospects for continued and substantial economic growth appear favorable. Applicant asserts, however, that Seneca's growth has not kept pace with the area's requirements for banking services because of Seneca's lack of capital with which to provide new and expanded services, and also by reason of the competition offered by larger, more aggressive banks operating in its service area. Within its service area, Seneca has felt most directly the competitive force of a branch of the Lincoln National Bank and Trust Company of Central New York, Syracuse, an institution with \$165 million of deposits. Applicant urges that the greater marketability of its shares over those of Seneca would enable Applicant more easily and assuredly to provide for Seneca's capital requirements. While the record does not establish an inability by Seneca successfully to market its shares, it is reasonable to assume that Applicant's assistance as proposed would facilitate the raising of capital considered necessary to expand and implement Seneca's services

and, thus, more aggressively compete with banks in its area. To the extent that the improvement in Seneca's capital position would be accomplished by Applicant's proposal, Seneca's prospects as a subsidiary of Applicant are consistent with and provide some slight affirmative weight for approval of the application.

Management. - The history of operations of both Security Trust and Seneca reflects sound, experienced, and capable managements. The management of Applicant, to be drawn from the two proposed subsidiary banks, is expected to be similarly satisfactory, and both banks and their respective areas will be represented in the management of the holding company. Applicant states that no changes are currently contemplated with respect to their boards of directors or principal officers. Management succession is not a significant factor in this application. Applicant urges, however, that the attraction and retention of junior officers, who would be qualified to succeed present management, are difficult for a bank of the size of Seneca, and that the proposed affiliation would facilitate for Seneca the acquisition and training of capable management as needed. While the Board recognizes that the proposed affiliation may offer reasonable assurance of a continuity of competent and experienced executive management, this consideration is of little consequence in the subject application, no showing having been made of a present or anticipated lack of such personnel. The Board concludes that considerations relating to the factor of management are consistent with, but provide little affirmative support for, approval.

-6-

Convenience, needs, and welfare of the communities and the areas concerned. - As indicated earlier, Security Trust, with 23 offices and total deposits of \$260 million, is the third largest bank in District Eight and has as its primary service area ^{5/} all six counties in that district. Its proposed affiliation with the much smaller bank in District Six may be expected to have little, if any, effect on the convenience, needs, and welfare of the communities and the area served by Security Trust. The principal effect would appear to be in the area served by Seneca.

Seneca is located in Seneca County, approximately midway between Rochester in District Eight and Syracuse in District Six. The county is one of seven in District Six and adjoins the eastern border of District Eight. Seneca's primary service area, with an estimated population of 20,000 persons, ^{6/} includes the village and township of Seneca Falls and somewhat less than the remainder of the northern half of Seneca County. Seneca Falls is considered the economic center of Seneca County and the site of most of its local industrial development. Several large and well-established industries, such as Sylvania Electric Products, Inc., Goulds Pumps, Inc., and Seneca Knitting Mills, Inc., are located in Seneca Falls. Applicant states that the nine leading companies in Seneca Falls employ over 3,100 people, earning an annual income of

^{5/} The area from which Applicant estimates more than 75 per cent of the bank's deposits of individuals, partnerships, and corporations are derived.

^{6/} Population estimates are derived from 1963 and 1964 publications of the State of New York's Department of Commerce.

approximately \$16 million. An additional 2,300 persons, with an estimated combined annual income of approximately \$13 million, work at the Seneca Army Depot and the Willard State Hospital, to the south of the village of Seneca Falls. A \$22 million sugar beet refinery is under construction 11 miles from Seneca Falls, and construction has begun on Eisenhower College at a site two miles east of Seneca Falls.

The area served by Seneca is also served by the First National Bank of Waterloo, which is larger than Seneca, by the aforementioned branch of the Lincoln National Bank and Trust Company of Central New York, and by a mutual savings bank. While the service requirements, including credit needs, of the smaller businesses, merchants, and residents in the area appear to be served by the Seneca Falls banks, there is evidence that the local banks have not satisfied the credit needs of larger companies in the area, and that these concerns look primarily to banks outside the county for their credit needs. Analysis of the Seneca loan-deposit ratio and of the make-up of its loan portfolio indicates that there is ample room for increase in the number and types of loans that could be made. A more aggressive loan policy than that followed by Seneca is likely as a result of the proposed affiliation.

While the instant application concerns primarily the areas served by Security Trust and Seneca, Applicant contemplates a regional holding company which, it contends, is needed to serve and assist in the development of the greater Rochester economic area. Applicant asserts that State law prevents, except through the medium of a holding company,

the extension of services of the larger commercial banks across banking districts, and prevents Security Trust from serving the portion of the Rochester economic area that is located outside the boundaries of District Eight. In this connection, it is to be noted that the New York State Legislature, in declaring its policy with respect to bank holding companies in the State, stated that one of the objectives of the State's bank holding company legislation of 1961 was "that healthy and nondestructive competition be fostered among all types of banking organizations within natural economic and trade areas".^{7/}

It is the Board's judgment that approval of Applicant's proposal for an "upstate-regional" bank holding company system would enable regional institutions to provide banking services within such trade areas; would increase and improve the scope and nature of available banking services, particularly in the Seneca area; and would permit entry in the upstate market area of an additional banking force sized to meet existing competition. These considerations are not only consistent with the needs, convenience, and welfare of the communities affected, but offer affirmative support for approval of the application.

Effect of proposed acquisition on adequate and sound banking, the public interest, and banking competition. - Security Trust's 23 offices are located in the Eighth District; Seneca's only office is located and competes in the Sixth District. That office is over 50 miles from Security Trust's head office and more

^{7/} Note to section 141 of the New York Banking Law.

than 15 miles from Security Trust's closest office. There is no overlap of primary service area of any office of Security Trust and that of Seneca. The deposit and loan accounts held by Seneca, originating within the area serviced by Security Trust, are negligible in size and number in relation to the total deposits and loans held by Seneca, and in relation to the total deposit and loan business originating in that area.

While the dollar amounts of deposits and loans derived by Security Trust from Seneca's service area are not insignificant in relation to Seneca's total deposits and loans, analysis of Security Trust's deposits and loans originating in Seneca's area discloses that a major portion of the dollar volume of both represents a few large accounts derived from long-established customers of Security Trust now located in Seneca's area. The evidence before the Board establishes that competition between the two banks for deposits and loans is virtually nonexistent. Further, in view of their distinctly separate service areas, the location of competing banking offices between their nearest offices, and the existing legal impediment in the State to branching across district lines, there appears to be little likelihood that any significant future competition between the two proposed subsidiaries will be foreclosed.

The Board has considered also the competitive effect of consummation of this proposal on other banks within each of the areas served by the proposed subsidiary banks. The affiliation of

Seneca, a bank with \$11 million of deposits, and Security Trust, a \$260 million institution, will have no measurable impact on either the larger banks or the 23 smaller banks located in the Eighth District. Nor does it appear to the Board that Seneca's affiliation with Security Trust under Applicant's ownership will adversely affect either of Seneca's two competitors located in its primary service area, or the seven other banks operating a total of nine offices within an approximate radius of 15 miles of Seneca Falls. The businesses and residents situated in Seneca's service area will be the beneficiaries of the more vigorous competition to be offered to the First National Bank of Waterloo, a bank nearly half again the size of Seneca, and the office of Lincoln National Bank of Syracuse. In a larger banking market area, the proposed affiliation will provide more effective competition for the banks of Marine Midland Corporation, the only holding company with banking offices in the Sixth District, which offices control 23 and 16 per cent, respectively, of the total deposits of all commercial banks and of all banks in the district.

Within the Eighth District, consummation of Applicant's proposal will bring to 40 per cent each the banking offices and total deposits of all commercial banks under holding company control, and to 27 per cent the deposits of all banks under such control. The extent to which existing holding company control of banking resources would be increased by consummation of this proposal does not, in the Board's judgment, preclude approval of the proposal since, as earlier found, the affiliation

of Seneca, with \$11 million of deposits, and the \$260 million Security Trust, with offices in each of the District's six counties, will have no significant impact on Security Trust's competitive position.

On the basis of the foregoing, and in view of the negligible State-wide impact that Applicant's formation will have, the Board concludes that Applicant's acquisition and operation of Security Trust and Seneca would not result in the creation of a bank holding company system, the size or extent of which would be beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

At the time this application was filed with the Board, notification of the Board's receipt thereof was given to the Comptroller of the Currency and the United States Department of Justice. No comments or views were submitted by either on this application. However, by letter dated February 13, 1966, the Comptroller submitted a statement of opposition to applications pending before the Board whereby BT New York Corporation and Charter New York Corporation, both of New York, seek the Board's approval of the formation of bank holding companies under the Act. Each of these applications involves, as does the present case, the proposed acquisition by a bank holding company of stock of banks located in more than one of the State's banking districts.

The Comptroller recommended that the BT New York Corporation and Charter New York Corporation applications be disapproved and, as basis for such recommendation, referred to an earlier Board letter

addressed to a national bank located in New York City expressing the Board's view that the proposed ownership by that bank of a majority of the stock of an upstate bank would appear to violate provisions of Federal law prohibiting the establishment and operation of branch offices by national banks. The Comptroller expressed the view that the Board, having taken the aforementioned position in reference to the acquisition by a national bank of the stock of another bank, was estopped from approving applications involving the acquisition of bank stocks by nonbank bank holding companies, for the stated reason that such acquisitions "would enable State banks to circumvent the prohibitions of the branch banking statutes of the State of New York."

Although the Comptroller's views were not directed to the application by Security New York State Corporation, the similarity of that application to the two applications that were the object of the Comptroller's views makes appropriate, in the Board's judgment, treatment herein of the Comptroller's position.

In the Board's judgment, the proposals involved in the three bank holding company applications are patently and decisively distinguishable from that involving the proposed acquisition by a national bank of the stock of another bank. The latter case, in the Board's opinion, involved bank ownership, control and, thus, operation of another bank in an area where a "direct" branch office would be prohibited to the acquiring bank. In the holding company applications before the Board, not only are the holding companies' ownership and control of the

banks involved not prohibited by Federal or State law but, on the contrary, are expressly authorized by the Bank Holding Company Act of 1956 and Article III-A of the New York Banking Law. By provisions of the National Bank Act (sections 5136 and 5155 of the Revised Statutes), Congress made clear its intention to restrict and regulate the extent to which a national bank may own and control additional banking offices. The national bank proposal that was the subject of the Comptroller's letter fell, in the Board's opinion, within the scope of Congressional prohibition. As earlier indicated, the applications pending before the Board under the Bank Holding Company Act, including that of Security New York State Corporation, are clearly of the type approval of which is permitted under both Federal and State law.

The Board concludes that the legislative history of the Bank Holding Company Act clearly establishes Congressional intention that proposed bank holding company formations and operations not be subjected to statutory limitations imposed on branch banking. Further, a similarly clear intention is evidenced by the enactment in the State of New York of bank holding company legislation, pursuant to which the three applications now before the Board have been approved by the State Banking Department upon the recommendation of the Superintendent of Banks. For the foregoing reasons, the Board is unable to concur in, or make applicable to the cases before it, the rationale urged by the Comptroller.

-14-

Conclusion. - On the basis of all the 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 transaction would be consistent with the public interest and that the application should therefore be approved.

March 25, 1966.

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

Item No. 20
3/25/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 23, 1966



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

Dear Mr. Nosker:

In accordance with the request contained in your letter of March 18, 1966, the Board approves the appointment of L. Rex Dazey as an assistant examiner for the Federal Reserve Bank of Richmond, effective today.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 21
3/25/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 25, 1966

Mr. Joseph R. Campbell, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania. 19101

Dear Mr. Campbell:

In accordance with the request contained in your letter of March 16, 1966, the Board approves the appointment of James C. Kogel as an assistant examiner for the Federal Reserve Bank of Philadelphia. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 22
3/25/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 24, 1966.

Dear Sir:

The indicated number of copies of the following forms are being forwarded to your Bank under separate cover for use of State member banks and their affiliates in submitting reports as of the next call date. A copy of each form is attached.

Number of
copies

Form FR 105 (Call No. 179), Report of Condition
of State member banks.

Form FR 105e (Revised December 1965), Publisher's
copy of report of condition of State member
banks.

Form FR 105e-1 (Revised December 1965), Publisher's
copy of report of condition of State member banks.

Form FR 220 (Revised March 1952), Report of affiliate
or holding company affiliate.

Form FR 220a (Revised March 1952), Publisher's copy
of report of affiliate or holding company affiliate.

The faces of the forms are identical in all substantive respects to those used for the December 1965 call. As for other recent spring and fall calls the supporting schedules on the reverse have been eliminated except for the items required for deposit insurance assessment purposes.

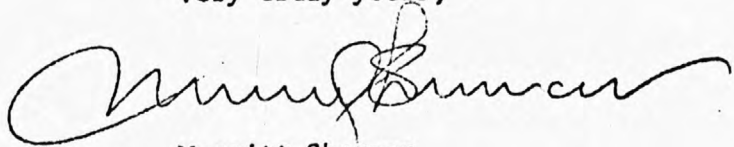
The memoranda items required for reconciliation of differences in national and State bank reporting procedures with respect to repurchase transactions are included. The valuation reserves on loans and securities items have also been included but the items pertaining to averages of deposits and loans have been eliminated for consistency with the forms being used for nonmember State and national banks. The same form is being printed by the Federal Deposit Insurance Corporation for distribution to insured nonmember State banks and by the Office of the Comptroller of the Currency for distribution to national banks.

The average deposit and loan items have been retained on the publisher's copy. However, since they are not as pertinent for this call as for the mid-year and year-end calls when "window dressing" has been a problem, reporting banks should be advised that publication is optional. The Comptroller of the Currency is not requiring publication of these items for this call. Reporting banks might also be advised that the word "Other" in the captions for "Other loans and discounts" and "Other liabilities for borrowed money" need not appear in published reports when no Federal funds transactions are reported on the call date. This apparently has been a source of confusion to some users of published reports.

A memorandum describing the special keypunching and processing procedures in effect for this call will be sent in the near future. It is anticipated that a special abbreviated card format and edit procedures will be adopted for this one call. It is unlikely that most Reserve Banks will find it practical to duplicate these edit procedures for processing at the Reserve Banks, and procedures adopted at the Board should eliminate this burden.

It will still be necessary for the Reserve Banks to make the special adjustments in national bank reports for differences in treatment of repurchase and resale transactions. These adjustments were described in detail in the Data Processing Technical Memorandum No. 3 dated December 28, 1965. The burden of such adjustments will be reduced since it will not be necessary to carry these adjustments to the loan and Government securities schedules. It will not be necessary to advise the Board of adjustments made.

Very truly yours,



Merritt Sherman,
Secretary.

Enclosures.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.