FR 609

Minutes for April 20, 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 Wednesday, April 20, 1966. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Kakalec, Controller
Mr. Hexter, Associate General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Hersey, Adviser, Division of International Finance
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Leavitt, Assistant Director, Division of Examinations
Miss Wolcott, Technical Assistant, Office of the Secretary
Miss Hart, Mrs. Heller, and Messrs. Forrestal and Via of the Legal Division
Messrs. Gemmill and Grimwood of the Division of International Finance
Messrs. McIntosh and Ring of the Division of Bank Operations
Messrs. Egertson, Guth, and Poundstone of the Division of Examinations

Approved letters. The following letters were approved unanimously after consideration of background information that had been made available to the Board. Copies of the letters are attached under the respective item numbers indicated.

	Item No.
Letter to Genesee Merchants Bank & Trust Company, Flint, Michigan, approving the establishment of a branch at East First and Harrison Streets.	1
Letter to Nevada Bank of Commerce, Reno, Nevada, approving the establishment of a branch at Liberty and South Virginia Streets.	2
Letter to United California Bank, Los Angeles, California, approving the establishment of a branch near Newport Beach.	3
Letter to Chase International Investment Corporation, New York, New York, granting consent to Arcturus Investment & Development, Ltd., Montreal, Canada to hold shares of Hogares Regiomontanos, S.A. de C.V., Mexico, already acquired, and to purchase additional shares.	4
Letter to the Federal Deposit Insurance Corporation regarding the application of State and Savings Bank, Monticello, Indiana, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	5
Letter to Mellon Bank International, Pittsburgh, Pennsylvania, approving an amendment to its Articles of Association.	6
Letters to Manufacturers Hanover International Finance Corporation and Manufacturers Hanover International Banking Corporation, New York, New York, approving amendments to their respective Articles of Association.	7-8
Letter to the Federal Reserve Bank of New York regarding the applicability of section 32 of the Banking Act of 1933 to circumstances in which a member bank director would become a stockholder and creditor of a corporation that would be expected to become primarily engaged in business of the kinds covered under the statute.	9

Report on competitive factors. There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Bank of Lunenburg, Kenbridge, Virginia, into The Fidelity National Bank, Lynchburg, Virginia.

Discussion centered upon the fact that the Division of Examinations and the Richmond Federal Reserve Bank had arrived at somewhat different conclusions regarding the effect upon competition in the area served by the Kenbridge bank. It developed that qualitative judgments were principally involved, and a suggestion was made for deletion of a statement in the draft that the proposed merger would appear to have adverse competitive aspects.

Unanimous approval then was given to the transmittal of the report to the Comptroller in a form in which the conclusion read as follows:

> Consummation of the proposed merger would eliminate existing competition between Lunenburg Bank and the Blackstone branch of The Fidelity National Bank of Lynchburg, eliminate one of two locally headquartered banks in the area, and increase significantly the area deposits held by Fidelity.

Currency of $2 denomination (Item No. 10). In a letter dated February 28, 1966, addressed to Chairman Martin, the Secretary of the Treasury asked for the reaction of the Board to the alternative proposals of abandoning the $2 denomination of United States notes or the

issuance of $2 Federal Reserve notes. The question was raised because of the elimination from the 1967 Federal budget of funds for the printing of United States notes. The Secretary indicated that the statutory requirement that $322 million of United States notes remain outstanding could be fulfilled through use of the $100 denomination, thus effecting a reduction in the annual budget expenditure now arising from the use of $2 and $5 denominations.

Subsequently a letter dated March 8, 1966, was sent by the Board to the Presidents of the Federal Reserve Banks asking for their views on the alternative proposals. A summary of their comments had been circulated to the Board in a memorandum dated April 11, 1966, from the Division of Bank Operations, to which was attached a draft of reply to Secretary Fowler. The reply would express the view that, with a few exceptions, the public would not be significantly inconvenienced by the elimination of $2 bills, and it would state that neither the Board nor the Reserve Banks favored the printing of $2 Federal Reserve notes at this time. It would express the view that, if the $2 bill was discontinued, the Reserve Banks and the Treasury should stop paying out the notes at the same time, on an agreed-upon date, and the then existing stocks destroyed.

Various aspects of the matter were discussed in the light of the circulated material and supplementary remarks by members of the staff, following which the letter to the Secretary of the Treasury was approved unanimously. A copy is attached as Item No. 10.

Suggested amendments to Bank Holding Company Act (Items 11-13). There had been distributed a memorandum from the Legal Division dated April 12, 1966, relating to a request from the Chairman of the Senate Committee on Banking and Currency for the Board's views with respect to certain amendments to the Bank Holding Company Act suggested by a representative of Johnston, Lemon & Co., Washington, D. C. A draft of reply to Chairman Robertson was attached.

The discussion at this meeting dealt primarily with a suggested amendment that would charge the Board with responsibility to consider competition of nonbank financial institutions in connection with applications under the Bank Holding Company Act. The proposed reply would express agreement with the view that it was appropriate for information on the competition of such institutions to be considered. It would indicate that the Board regarded such competition as relevant to the factor of convenience, needs, and welfare of the communities and the area concerned and to the question whether the effect of a proposed acquisition would be to expand the size or extent of the holding company system beyond limits consistent with the public interest. The reply would then state that in the circumstances it appeared to the Board that an amendment to the Holding Company Act along the lines suggested would not effect a significant change in the Act or in the Board's procedures and would serve no useful purpose.

Board members recalled that the question of the extent to which competition of nonbank financial institutions should be considered in connection with holding company applications had been brought up for discussion recently in relation to an application then under consideration, and it had been their understanding that a memorandum on the subject would be submitted by the staff. Governor Brimmer, in particular, indicated that he felt in need of such a memorandum to obtain clarification of the practices that the Board had been following in considering competition of nonbank financial institutions, both in connection with holding company and bank merger applications. Further comments by members of the Board suggested that, despite whatever theories may have governed consideration of nonbank competition thus far, it might be desirable to reexamine them against the background of the latitude available under existing statutes.

As a result of the discussion, it was understood that a memorandum of the kind suggested by the Board members' comments would be prepared, that the reply to Chairman Robertson would be deferred pending the availability of such a memorandum, and that Governor Brimmer would also contact the Banking Markets Section to obtain staff views on the economic aspects of the question.

There had also been distributed a memorandum dated April 13, 1966, from Mr. Cardon relating to a request from the Chairman of the

Senate Banking and Currency Committee for the Board's position on suggested amendments to S. 2353, a bill to amend the Bank Holding Company Act, to guard against token divestitures and solve certain technical problems relating to trusts. The amendments, drafted by Board staff in consultation with the Committee staff, defined trusts that would be covered by definition of "company" as amended by the bill; dealt with the problem of enforcing the bill's divesture requirements; and continued general rules that banks not be considered holding companies solely because they were the legal owners of bank stocks held in a fiduciary capacity, that banks not be required to obtain Board approval before acquiring bank stocks in a fiduciary capacity, and that banks need not divest bank stocks held in a fiduciary capacity.

Following discussion of the amendments in the light of the distributed material and supplementary remarks by members of the staff, a letter to Chairman Robertson recommending that the amendments be adopted was approved unanimously. A copy is attached as Item No. 11.

There had also been distributed a memorandum from Mr. Cardon dated April 13, 1966, regarding a request from Chairman Robertson for comment on a proposal advanced by the American Industrial Bankers Association to exclude industrial savings banks from the definition of "bank" in the Bank Holding Company Act.

The draft of reply submitted with the memorandum would express the belief that the definition should be amended so as to cover only

an institution that received deposits subject to check, thereby limiting coverage to commercial banks and excluding not only industrial banks but other savings banks that accepted funds from the public payable on demand. The reply would note that the Board had heretofore interpreted the Act as covering industrial banks that accepted funds from the public that were in actual practice repaid on demand. The reply would express the view that this was the correct legal interpretation of the present statute, but it would also express the view that there was no reason on policy grounds to cover such institutions. It would point out that adoption of an amendment along the lines now suggested would obviate the need for another amendment, incorporated in S. 2353, to exempt nondeposit trust companies from the definition of "bank."

In his memorandum Mr. Cardon expressed the opinion that as a matter of policy the coverage of the Holding Company Act should be restricted to commercial banks. He brought out that in recommending an amendment to exclude nondeposit trust companies the Board had argued that there was no need to cover such companies in order to achieve the objectives of the Holding Company Act, since the Act was designed principally to restrain undue concentration of control of commercial banking resources and to prevent abuse by a holding company of its control of commercial banks for the benefit of its nonbanking subsidiaries.

In discussion of the matter, Vice Chairman Robertson referred to the aforementioned comment on the objectives of the Holding Company Act and expressed agreement that this reflected the purpose of the statute at the time it was enacted. Therefore, he thought that the proposed redefinition of "bank" was appropriate. There appeared to be general agreement with this statement by the Vice Chairman.

The discussion then turned to the phraseology of the proposed definition, and one staff suggestion was that "bank" might be defined as including any institution that accepted deposits payable on demand and subject to check.

At this point Mr. Hackley stated that he was strongly in favor of the proposed redefinition. He noted that there had always been difficulty in reconciling the fact that savings and loan associations were not covered by the present definition, whereas the Board had held that industrial banks were covered if they received funds payable in practice on demand. The proposed amendment would make it clear that the Holding Company Act was concerned only with commercial banks that received deposits subject to check.

Vice Chairman Robertson commented that the Board agreed with the idea.

Mr. Hexter raised the question whether the proposed letter might be read as implying a position adverse to legislation regulating

savings and loan holding companies or companies that owned or controlled a number of industrial banks.

Mr. Hackley commented that the letter would seem to him to indicate that it was appropriate for Congress to pass separate legislation regulating specifically not only savings and loan holding companies but also holding companies of industrial banks. However, it had always been his feeling, and he thought it was clear from the legislative history, that Congress did not intend to give the Board such broad jurisdiction in the Bank Holding Company Act.

Vice Chairman Robertson suggested that the letter to Chairman Robertson be rephrased slightly so as to make clear the view that holding companies of financial institutions other than banks should be covered by separate legislation and avoid any possible implication of the kind Mr. Hexter had mentioned.

Unanimous approval then was given to the proposed letter to Chairman Robertson with the understanding that if would be modified in certain respects in light of the foregoing discussion. Attached as Item No. 12 is a copy of the letter subsequently sent to Chairman Robertson pursuant to this action.

There had likewise been distributed a draft of reply to a letter dated March 24, 1966, from J. Henry Schroder Banking Corporation, New York, New York, indicating opposition to H.R. 7371 and

support of S. 2353, bills to amend the Bank Holding Company Act, on the grounds of the treatment that the bills would accord to the provisions of section 6 of the Act. The bank also proposed broadening the terms of the new section 2(h) of the Holding Company Act, in the form in which the Act would be amended by S. 2353.

During discussion of various aspects of the matter it was pointed out that the correspondent's concern related to the effects of passage of legislation including a "one-bank" holding company definition, and that the prospects for such legislation appeared remote. The proposed reply was then approved unanimously. A copy is attached as Item No. 13.

Export-Import Bank program. There had been distributed a memorandum from the Legal Division dated April 19, 1966, commenting on an April 13 letter from the Export-Import Bank of Washington requesting that certain obligations carrying the guarantee of the Bank be declared eligible as collateral security for advances by Reserve Banks to member banks under the provisions of section 13 of the Federal Reserve Act. Three categories of transactions in which such obligations might be acquired by banks were described in an attached proposed reply.

Prior to discussion of the distributed material, Vice Chairman Robertson referred to a recent meeting in Chairman Martin's office at which representatives of the Bank described and requested comments

on a program currently under consideration that involved setting up an Export-Import Bank rediscount facility. The Vice Chairman caused to be distributed copies of a memorandum that had been left by the Export-Import Bank representatives, along with copies of a draft memorandum of staff comments thereon. He suggested that these papers be studied by the members of the Board with a view to their consideration at tomorrow's meeting.

Mr. Forrestal then reviewed the question before the Board as a result of the April 13 letter, along with the reply proposed to be given.

Governor Brimmer observed that this was part of a package of proposed measures resulting from a high-level Government study of the problem of financing U.S. exports. Thus, the program should be considered in that broader setting. Vice Chairman Robertson commented along the same lines.

Accordingly, it was agreed after additional discussion that the April 19 memorandum and the other distributed material would be examined by the Board members in the light of the overall objectives of the export financing program and that the subject would be considered further at tomorrow's Board meeting.

Application of Harter Bank & Trust Company (Items 14-15). There had been distributed drafts of an order and statement reflecting

the Board's approval on April 11, 1966, of the application of The Harter Bank & Trust Company, Canton, Ohio, to merge with The Waynesburg Bank, Waynesburg, Ohio.

The issuance of the order and statement was authorized. Copies of the documents, as issued, are attached as Items 14 and 15.

Work measurement program (Item No. 16). Pursuant to action taken at the meeting on March 30, 1966, a letter was sent to the Presidents of all Federal Reserve Banks, except St. Louis and Dallas, inviting the Banks to participate in a work-measurement program to be developed by Booz, Allen, and Hamilton, Inc., along the lines of the survey conducted by that firm at the Federal Reserve Bank of Dallas. The contemplated program would be conducted either at the St. Louis Bank alone or in conjunction with one or more other Reserve Banks.

A letter dated April 11, 1966, had now been received from President Bopp of the Federal Reserve Bank of Philadelphia advising that the Bank's Board of Directors had considered the proposal. Before reaching a decision, however, they requested the views of the Board of Governors on two items of principle: (1) action should not be taken until the directors and top management had had an opportunity to discuss the matter with the specific individuals from Booz, Allen, and Hamilton who would conduct or direct the program at the Philadelphia Bank, and (2) the Bank should not retain this consulting firm without

having an opportunity for discussion with at least one other consulting organization. A draft of reply had been distributed with a covering memorandum dated April 15, 1966, from the Division of Bank Operations.

Comments at this meeting emphasized the desirability of developing a set of measurements that would provide a reliable basis for inter-Bank comparisons. While it was agreed that a position should not be taken that every Reserve Bank must participate in the program, nevertheless the hope was expressed that such Banks as chose to participate would find the results sufficiently valuable that other Reserve Banks would want to join in the program later. The feeling also was expressed that an indication should be given in the reply to President Bopp that the potential benefits of such a program were great enough to give a sense of urgency to the whole undertaking.

The letter to President Bopp was then approved unanimously in the form attached as Item No. 16, with the understanding that copies would be sent to the other Reserve Bank Presidents for their information.

New national bank in San Francisco. Mr. O'Connell reported circumstances under which a meeting had been held at the Federal Deposit Insurance Corporation with parties interested in the organization of a new national bank in San Francisco, California, in effect as a replacement for the defunct San Francisco National Bank. In this connection he referred to questions that had been raised by Counsel for the Federal Reserve Bank of San Francisco concerning the fact that the Reserve Bank

was not invited to participate, and particularly to the fact that Reserve Bank Counsel was considering the possibility of advising President Swan to address letters of protest to certain parties, including the Chairman of the Corporation. He understood that Chairman Randall intended to be in touch with the Vice Chairman of the Board to explain the Corporation's position.

It was understood, after discussion, that Mr. O'Connell would suggest to the Federal Reserve Bank that it not proceed with the writing of such letters until after the situation had been reviewed by President Swan with the Vice Chairman of the Board.

The meeting then adjourned.

Secretary's Notes: At its meeting on April 13, 1966, the Board considered a request from the Bureau of the Budget for any proposals for State legislation that it might be desirable to submit for consideration by the Committee of State Officials on Suggested State Legislation of the Council of State Governments. The Board agreed that it would be appropriate to call attention to questions that had been raised from time to time regarding the relationship between maximum rates of interest on time and savings deposits, as prescribed by the Board, and laws of individual States on the same general subject. Attached as Item No. 17 is a copy of the letter sent to the Bureau of the Budget on April 19, 1966, pursuant to the understanding at the April 13 meeting.

On April 19, 1966, a letter was sent to First National City Bank, New York, New York, acknowledging receipt of notice of

its intent to establish an additional branch in Hong Kong, to be located in the Kwun Tong District. The letter noted that no additional capital investment was expected to be required from New York.

On April 19, 1966, Governor Shepardson approved on behalf of the Board a memorandum from the Division of Research and Statistics dated April 14, 1966, recommending the establishment of an additional position of Research Assistant or Statistical Assistant in the National Income, Labor Force, and Trade Section.

Governor Shepardson today approved on behalf of the Board the following items:

Memorandum from the Division of Bank Operations dated April 18, 1966, recommending the establishment of two summer analyst positions in the Operations Analysis Section, with the understanding that the grade of each position would depend on the qualifications of the applicant.

Memorandum from the Legal Division recommending the appointment of Howard B. Cloth as Attorney in that Division, with basic annual salary at the rate of $6,269, effective the date of entrance upon duty.

Under date of April 20, 1966, a letter was sent by Vice Chairman Robertson to Mr. Ellis, Chairman of the Presidents' Conference Committee on Inter-Bank Electronic Communications, advising of the designation of the following members of the Board's staff as associate members of the Subcommittees indicated:

Lawrence H. Byrne, Jr.	Subcommittee on Federal Reserve Bank Inter-Bank Information Systems
Joseph E. Kelleher	Subcommittee on Federal Reserve Bank Inter-Bank Information Systems (for Wire Transfer Responsibility)
John N. Kiley, Jr.	Subcommittee on Improving the Payments Mechanism

Secretary

Item No. 1
4/20/66

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 20, 1966

Board of Directors,
Genesee Merchants Bank & Trust Company,
Flint, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Genesee Merchants Bank & Trust Company, Flint, Michigan, of a branch at the intersection of East First Street and Harrison Street, Flint, Michigan, 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. 2
4/20/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 20, 1966

Board of Directors,
Nevada Bank of Commerce,
Reno, Nevada.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Nevada Bank of Commerce, Reno, Nevada, of a branch on the northwest corner of Liberty and South Virginia Streets, Reno, Nevada, 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. 3
4/20/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 20, 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 on the northwest corner of the intersection of MacArthur Boulevard and Birch Street in an unincorporated area near Newport Beach, Orange 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. 4
4/20/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 20, 1966.

Chase International
Investment Corporation,
1 Chase Manhattan Plaza,
New York, New York. 10005

Gentlemen:

As requested in a letter dated March 28, 1966, from Arcturus Investment & Development, Ltd. ("Arcturus"), Montreal, Canada, the Board of Governors grants consent for Arcturus to hold 250 shares of capital stock, aggregate par value US$500 equivalent, of Hogares Regiomontanos, S.A. de C.V. ("Hogares"), which were acquired on August 10, 1965, at no cost. The Board also grants consent for Arcturus to purchase and hold approximately 3,000 additional shares of Hogares, at a cost of approximately US$6,000, provided such stock is acquired within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

Item No. 5
4/20/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 20, 1966

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

Dear Mr. Randall:

Reference is made to your letter of April 5, 1966, concerning the application of State and Savings Bank, Monticello, Indiana, 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 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,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

Item No. 6
4/20/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 20, 1966

Mellon Bank International,
Mellon Square,
Pittsburgh 30, Pennsylvania.

Gentlemen:

Reference is made to your letter dated March 30, 1966, transmitted through the Federal Reserve Bank of Cleveland, enclosing a certified copy of the minutes of a special meeting of the shareholders of your Corporation on March 28, 1966, at which a resolution was adopted amending Article Third of your Articles of Association so as to read:

> "Third. The home office of this Corporation shall be located in the United States at 84 William Street, New York, New York. 10038."

In accordance with your request, the Board of Governors approves the amendment to Article Third of your Articles of Association. Please advise the Board of Governors the date your home office is removed to 84 William Street, New York.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

Item No. 7
4/20/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 20, 1966

Manufacturers Hanover International
Finance Corporation,
44 Wall Street,
New York 15, New York.

Gentlemen:

Reference is made to your letter dated March 29, 1966, enclosing a consent signed under date of March 7, 1966, on behalf of Manufacturers Hanover Trust Company, sole shareholder of your Corporation, consenting to the amendment of Article FIFTH of your Articles of Association so as to read:

> "FIFTH. The Board of Directors shall consist of a minimum of 5 and a maximum of 9 members. The number of members within such maximum and minimum limits shall be fixed from time to time by the Board of Directors in the by-laws of the Corporation. The first meeting of the shareholders for the election of directors shall be at 44 Wall Street, New York 5, N. Y. on the 5th day of March, 1962, or at such other place and time as a majority of the undersigned shareholders may direct."

As requested, the Board of Governors approves the amendment to Article FIFTH of your Articles of Association.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

Item No. 8
4/20/66

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 20, 1966

Manufacturers Hanover International
Banking Corporation,
44 Wall Street,
New York 15, New York.

Gentlemen:

Reference is made to your letter dated March 25, 1966, enclosing a copy of a consent signed under date of March 7, 1966, on behalf of Manufacturers Hanover Trust Company, sole shareholder of your Corporation, consenting to the amendment of Article FIFTH of your Articles of Association so as to read:

> "FIFTH. The Board of Directors shall consist of a minimum of 5 and a maximum of 9 members. The number of members within such maximum and minimum limits shall be fixed from time to time by the Board of Directors in the by-laws of the Corporation. The first meeting of the shareholders for the election of directors shall be at 44 Wall Street, New York 5, N. Y., on the 5th day of March, 1962, or at such other place and time as a majority of the undersigned shareholders may direct."

As requested, the Board of Governors approves the amendment to Article FIFTH of your Articles of Association.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

Item No. 9
4/20/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 20, 1966

Mr John J. Clarke, Vice President
and General Counsel,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Clarke:

This refers to your letter of April 12, 1966, enclosing a copy of a letter of April 11 from Milbank, Tweed, Hadley & McCloy, Esqs., attorneys for William K. Whiteford, who is a director of two member banks, Mellon National Bank & Trust Company of Pittsburgh, Pennsylvania, and Corpus Christi Bank & Trust Company of Corpus Christi, Texas. The question raised by this correspondence is whether section 32 of the Banking Act of 1933 would prohibit Mr. Whiteford from continuing his services with the banks if he were to be a nonvoting shareholder and creditor of a new corporation that would be expected to become primarily engaged in business of the kinds covered under the statute.

From the above correspondence, it appears that the corporation in question would be organized with an initial capital of approximately $800,000, $400,000 of which would be debt and the other half common stock. The stock initially issued would consist of 22,000 shares of voting stock and 18,000 of nonvoting stock, each share issued at $10 per share for a total $400,000. Mr. Whiteford and one other person would each contribute approximately $110,000 of the debt capital and each also for $90,000 would acquire 9,000 shares of the nonvoting common stock. Thus, it appears that Mr. Whiteford and this other person together would own all of the 18,000 nonvoting shares for a total stock investment of $180,000, and that their total debt contribution would be $220,000.

It is understood further that not less than three other individuals would contribute the balance of the debt capital and would acquire 22,000 shares of voting common stock for $220,000. These persons would be the corporation's only directors and its chief officers.

It is stated in the letter from Mr. Whiteford's attorneys that he will not be an officer, director, or employee of the proposed corporation. Furthermore, in your letter you indicated that his attorneys have advised you that he is not to become or to exercise any functions of an officer, director, or employee of the corporation, and that he would not be involved in or exercise any control over the day-to-day operations of the corporation.

On the basis of the foregoing correspondence, it does not appear that Mr. Whiteford's interests in the proposed corporation would be such that he would be primarily engaged as an individual in business of the kinds covered under the statute, or as an officer, director, or employee of any organization or a partner or employee of any partnership so engaged in such business.

Accordingly, the Board is of the view that, from the information presented, Mr. Whiteford's effectuation of his proposed interests in the corporation would not make it unlawful for him to continue his directorship with either of the member banks. It is noted that this conclusion is in harmony with that expressed in your letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 10
4/20/66

OFFICE OF THE VICE CHAIRMAN

April 21, 1966

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

Dear Joe:

This is in reply to your letter of February 28, 1966, requesting our views on the alternative proposals of abandoning the $2 denomination note or the issuance of a $2 Federal Reserve note.

It is the feeling of the Board and the Federal Reserve Banks that, with a few exceptions, the public would not be significantly inconvenienced by the elimination of $2 bills. There is evidence of general circulation only in the areas served by the Federal Reserve Bank of Boston and by the Seattle Branch of the Federal Reserve Bank of San Francisco. In the Boston area some employers use $2 bills in making up payrolls, and in the Seattle zone the circulation apparently results from the influence of the Canadian $2 bill, which circulates freely just across the border.

The Board and the Federal Reserve Banks would not favor the printing of a $2 Federal Reserve note at this time.

If the $2 United States note is abandoned, the use of $100 denomination notes to meet the statutory requirement that $322 million United States notes remain outstanding would be desirable. We feel strongly that if the $2 bill is discontinued, the Reserve Banks and the Treasury should stop paying out such notes at the same time, on a date to be agreed upon between the Treasury and the Board, and the then existing stocks should be destroyed.

Copies of the comments received from the Federal Reserve Banks will be supplied your staff, if desired.

Sincerely,

(Signed) J. L. Robertson

J. L. Robertson

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 11
4/20/66

OFFICE OF THE VICE CHAIRMAN

April 20, 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 letter of April 12, 1966, regarding amendments to S. 2353 to guard against "token" divestitures and to solve certain technical problems relating to trusts.

The Board recommends that the amendments be adopted.

Sincerely yours,

J. L. Robertson

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 12
4/20/66

OFFICE OF THE VICE CHAIRMAN

April 20, 1966

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

Dear Mr. Chairman:

You have asked for a report on a proposal, advanced by the American Industrial Bankers Association, to exclude industrial savings banks from the definition of "bank" in the Bank Holding Company Act of 1956. The Board believes that the definition should be amended to cover only "an institution that receives deposits payable on demand," thereby limiting coverage to commercial banks (i.e., banks that offer checking accounts), and excluding not only industrial banks but other savings banks that accept funds from the public that are paid on demand.

The Board has interpreted the present Act as covering industrial banks that accept "funds from the public that are, in actual practice, repaid on demand." We believe this is the correct legal interpretation of the present statute, but we see no reason in policy to cover such institutions under this Act and we believe there are at least four situations in which holding companies that own two or more industrial banks will be forced to change their operations or divest their industrial banks unless the statute is amended.

Adoption of such an amendment would obviate the need for another amendment now incorporated in S. 2353, to exempt nondeposit trust companies from the definition of "bank," but it would still be advisable to exempt Edge corporations and agreement corporations. Accordingly, we suggest that S. 2353 be amended by striking lines 6 through 14 on page 3 and inserting in lieu thereof the following:

"(c) 'Bank' means any institution that accepts deposits payable on demand, but shall not include any organization operating under section 25 or section 25(a) of the Federal Reserve Act, or any organization that does not do business within the United States. 'District bank' means any bank organized or operating under the Code of Law for the District of Columbia."

Sincerely yours,

J. L. Robertson

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

Item No. 13
4/20/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 20, 1966

Mr. Gerald F. Beal, Chairman,
J. Henry Schroder Banking Corporation,
57 Broadway,
New York, New York. 10015

Dear Mr. Beal:

This acknowledges your letter of March 24, 1966, advising of your support of S. 2353 and opposition to H. R. 7371, in relation to the treatment each of these bills accords to the provisions of section 6 of the Bank Holding Company Act of 1956 ("the Act"). In addition, your letter recommends a change in section 6 of S. 2353, for the purpose of providing, in section 2(h) of the Act, that the prohibitions of section 4 shall not apply to shares of a company that is organized under the laws of a foreign country and does not do any business within the United States, if such shares are held or acquired by a bank holding company that is principally engaged in business outside the United States, whether or not said bank holding company is principally engaged in the banking business outside the United States.

Your suggestion for a change in the proposed subsection 2(h) appears to be based, in part, upon your interpretation of the effect of said subsection, which you state "would be to require Schroders Limited to divest itself of holdings which would not be required of a domestic bank holding company under Section 4 of the Act."

This interpretation of the effect of section 6 of S. 2353 does not accord with the Board's understanding of these provisions. It is the Board's position that, under the Act as amended by S. 2353, a domestic bank holding company would be required, no less than a foreign bank holding company, to divest itself of shares in a foreign company doing no business in the United States.

The purpose of the proviso to the proposed new section 2(h) of the Bank Holding Company Act appears to be to enable a bank holding company (whether organized in this country or abroad) to retain shares in a nonbanking company that is organized under the laws of a foreign country and does no business within the United States,

provided the bank holding company's principal business is that of banking abroad. Under your suggestion that the word "banking" be omitted from the last line of section 6 of S. 2353, a bank holding company that was not principally engaged in banking abroad could control one or more banks in the United States and also have unlimited nonbanking interests in foreign companies. To permit this would frustrate extensively one of the two chief objectives of the Bank Holding Company Act, namely, to prevent holding companies from combining banking and nonbanking businesses. Under the proposed section 2(h), however, the retention of certain nonbanking interests would be permitted, but only if the bank holding company's principal activity is banking abroad, and the nonbanking interests consist of shares of a foreign company doing no business within the United States. By thus restricting the circumstances in which retention of nonbanking interests would be permitted, it is believed that the extraterritorial effect of the Act would be suitably limited without unduly undermining the major objectives of the statute. In somewhat similar fashion, the Act provides, in section 4(c)(8), for an exception from divestment for shares of a foreign company engaged principally in the banking business outside the United States.

Your letter questions also the rationale for permitting certain nonbanking interests to be retained by holding companies that are banks but not by holding companies that are not banks. The different treatment to be accorded to these two types of holding companies is based upon the belief that bank operations are conducted in accordance with more restrictive and protective practices and norms, or are subject to more rigid statutory and supervisory controls, than are operations of nonbank corporations, and that the safeguards afforded by such norms and regulation warrant a somewhat less confining treatment, under the Act, for bank holding companies that are banks.

For the foregoing reasons, the Board is unable to agree with your recommendation. Rather, it favors the proposal in section 6 of S. 2353, under which a bank holding company, whether foreign or domestic, would be required to divest as provided in section 4 of the Act, except that shares of a company organized under the laws of a foreign country that does no business within the United States could be acquired and retained by a bank holding company principally engaged in the banking business outside the United States.

Any further comments you may wish to submit will be received with interest and accorded full consideration.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 14
4/20/66

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of

THE HARTER BANK & TRUST COMPANY

for approval of merger with
The Waynesburg Bank

ORDER APPROVING MERGER OF BANKS

There has come before the Board of Governors, pursuant to the Bank Merger Act, as amended (12 U.S.C. 1828(c), Public Law 89-356), an application by The Harter Bank & Trust Company, Canton, Ohio, a State member bank of the Federal Reserve System, for the Board's prior approval of the merger of that bank and The Waynesburg Bank, Waynesburg, Ohio, under the charter and title of The Harter Bank & Trust Company. As an incident to the merger, the sole office of The Waynesburg Bank would become a branch of the resulting bank. Notice of the proposed merger, in form approved by the Board, has been published pursuant to said Act.

Upon consideration of all relevant material in the light of the factors set forth in said Act, including reports furnished by the Comptroller of the Currency, the Federal Deposit Insurance Corporation,

and the Attorney General on the competitive factors involved in the proposed merger,

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 said merger shall not be consummated (a) before the thirtieth calendar day following the date of this Order or (b) later than three months after said date.

Dated at Washington, D. C., this 20th day of April, 1966.

By order of the Board of Governors.

Voting for this action: Chairman Martin, and Governors Shepardson, Mitchell, Daane, Maisel, and Brimmer.

Absent and not voting: Governor Robertson.

(signed) -- Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 15
4/20/66

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

APPLICATION BY THE HARTER BANK & TRUST COMPANY
FOR APPROVAL OF MERGER WITH
THE WAYNESBURG BANK

STATEMENT

The Harter Bank & Trust Company, Canton, Ohio ("Harter Bank"), with total deposits of about $110 million, has applied, pursuant to the Bank Merger Act, as amended (12 U.S.C. 1828(c), Public Law 89-356), for the Board's prior approval of the merger of that bank with The Waynesburg Bank, Waynesburg, Ohio ("Waynesburg Bank"), which has total deposits of about $4 million.[1/] The banks would merge under the charter and name of Harter Bank, which is a member of the Federal Reserve System. As an incident to the merger, the sole office of Waynesburg Bank would become a branch of Harter Bank, increasing the number of its offices to 10.

Competition. - The head office of Harter Bank is in Canton, a city with an estimated population of 113,000, which is located in Stark County about 60 miles southeast of Cleveland. The bank operates three branches in Canton and five branches in various suburbs of Canton. The sole office of Waynesburg Bank is in Waynesburg, a town with an estimated population of 1,230, which is located in Stark County about 15 miles southeast of Canton near the border of Carroll County.

1/ Figures are as of December 31, 1965.

Harter Bank competes to some extent throughout Stark County, and a considerable number of Waynesburg residents commute to work in Canton and thus have an option of banking there. However, competition between the two banks is quite moderate, and there is no evidence of significant potential competition between them.

The relevant market area for the resulting bank is Stark County and the northwest portion of Carroll County. In this area, 18 banks operate 46 offices which hold total IPC deposits (deposits of individuals, partnerships and corporations) of about $442 million and total loans of approximately $232 million. Harter Bank, with about 22 per cent of the IPC deposits and about 24 per cent of the loans, is the largest bank in the area. Waynesburg Bank, with less than 1 per cent each of the area IPC deposits and loans, ranks, respectively, sixteenth and seventeenth in these categories. The second largest bank, First National Bank of Canton, holds about 21 per cent each of the IPC deposits and loans held by all banking offices in the area.

A single office bank, located three miles west of Waynesburg, and a branch of First National Bank of Canton, located five miles east of Waynesburg, are the chief competitors of Waynesburg Bank. There is no evidence that either of these offices would be adversely affected by the merger.

The effect of the proposed merger on competition would not be significantly adverse.

Financial and managerial resources and future prospects. - Waynesburg Bank has satisfactory financial resources, and its prospects are reasonably satisfactory. The bank's stock is closely held, and its chief executive officer is well past the normal retirement age. The banking factors, as they relate to Harter Bank, are satisfactory and would not be adversely affected by the proposed merger. Under the capable and progressive management of Harter Bank, the present office of Waynesburg Bank would become a more significant force in the Waynesburg economy.

Convenience and needs of the communities. - It appears that Harter Bank would more adequately serve the banking needs of the Waynesburg community. Waynesburg Bank has a relatively low ratio of loans to deposits. About 67 per cent of its loan portfolio is in real estate loans, and a sizable portion of its loans are to borrowers who reside outside the Waynesburg area. There is evidence that there is an unsatisfied demand in Waynesburg for personal instalment loans and for business credit, notably for inventory financing and instalment paper discounting. There are no other banking offices in Waynesburg. As previously indicated, a small bank is located three miles west of Waynesburg, and a branch of the second largest bank in Stark County is situated five miles east of the community.

The replacement of Waynesburg Bank by an office of Harter Bank would make full-service banking conveniently available to the community of Waynesburg.

The banking convenience and needs of Canton would not be appreciably affected by the proposed merger.

Summary and conclusion. - In the judgment of the Board, the proposed merger would benefit the banking convenience and needs of the Waynesburg area, and would not result in any significantly adverse consequences for banking competition.

Accordingly, the application is approved.

April 20, 1966.

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

Item No. 16
4/20/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 20, 1966

Mr. Karl R. Bopp, President,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania. 19101.

Dear Mr. Bopp:

In your letter of April 11, 1966, concerning the possibility of engaging Booz, Allen, and Hamilton, Inc., to develop a clerical work-measurement program at your Bank and other Reserve Banks, you said that your Directors would like to have the Board's views with respect to the following points which you advanced as items of principle:

(1) Your Bank should not act until opportunity has been provided for the Board of Directors and top management to engage in discussion with the specific individuals from Booz, Allen, and Hamilton who would conduct or direct the project in this Bank.

(2) Your Bank should not retain the above consulting firm without having an opportunity to have similar discussion with at least one other consulting organization.

The Board agrees completely with your thought that your Bank should not make a decision in this matter until there has been an opportunity for you to discuss the proposal with the representatives from the consulting firm who would direct the project at your Bank. As a matter of fact, this procedure was followed by Presidents Irons and Francis before a decision was made at the Dallas and St. Louis Reserve Banks. The Board also understands that, following receipt of its letter of April 1, 1966, President Ellis has made arrangements to discuss with Booz-Allen representatives their proposal as it would specifically apply to the Boston Bank. The Board would be happy to have Mr. Farrell of its staff make arrangements for any discussions you may desire.

When discussing the proposal in the Booz-Allen letter of February 24, 1966, to President Francis, the Board considered the possible desirability of suggesting that other consulting firms be invited to submit work-measurement proposals. For the reasons set forth below, the Board decided that such a procedure was unnecessary, and would not be in the best interests of the System as a whole:

(1) The Booz-Allen proposal was deemed to be an extension of part of the work previously done at the Federal Reserve Bank of Dallas. Before entering into the original contract the Dallas Bank considered, and submitted to the Board for review, proposals submitted by two other nationally recognized firms, and the Board is of the opinion that any requirements for competitive bidding were met by this procedure. From the standpoint of performance the Board has no reason to believe, on the basis of information received from the Bureau of the Budget and other sources, that any other consulting firm would be superior to Booz, Allen, and Hamilton, Inc.

(2) An extension of the program begun at Dallas would assure that the work at other Banks would be directed by the same individuals who have had Federal Reserve Bank experience and have demonstrated that they could develop a completely satisfactory work-measurement program without disturbing the morale of Reserve Bank employees.

(3) The possibilities for inter-Bank comparisons of Effectiveness Ratings (which the Board considers important) would be minimized if various consultants were employed. The Board understands that there are several procedures that may be used to determine work standards, ranging from some based on rather limited sampling techniques to others using more sophisticated predetermined standards based on a wide range of data, and that each consulting firm has its own unique system. The Board is fearful that, if varying systems were used in determining such standards, any differences in Effectiveness Ratings at one Reserve Bank as against another would always be open to the suspicion that such differences were due to variations in work measurement techniques rather than in performance.

The Board noted the statement in your letter that your Bank did not have a present feeling of urgency in the work-measurement project. While the Board recognizes that an undertaking of this kind is of sufficient importance to warrant a Bank's giving careful consideration to the matter before deciding whether or not to participate, it also believes that the potential benefits from such a program are great enough to give a sense of urgency to the whole undertaking.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 17
4/20/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 19, 1966.

Mr. William D. Carey,
Executive Assistant Director,
Bureau of the Budget,
Washington, D. C. 20503

Dear Mr. Carey:

This refers to your letter of February 10, 1966, inquiring whether the Board has any proposals for State legislation that it would desire to present through the Bureau of the Budget for consideration by the Committee of State Officials on Suggested State Legislation of the Council of State Governments.

From time to time, the Board is presented with questions regarding the relationship between its Regulation Q, which prescribes maximum rates of interest that may be paid by member banks on time and savings deposits, and laws in some of the individual States that relate to the same general subject. The enclosed memorandum describes some of the problems that have arisen when changes have been made in the Board's Regulation covering member banks of the Federal Reserve System. The difficulties experienced have resulted at least partly because the State rules referred to can be adjusted only by legislative action.

Without in any way suggesting what the State limitations or requirements appropriately should be, the Board suggests that the Committee of State Officials on Suggested State Legislation of the Council of State Governments might wish to consider whether, in the States having statutory or regulatory provisions of this type, authority might be given to a continuing State official or supervisory body to review and, if considered desirable, to make adjustments in State requirements, without having to wait for the legislative body to convene to consider the problems that may arise when changes in Federal regulatory provisions are made.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosure.

Statement for Submission to
Committee of State Officials on Suggested State Legislation,
Council of State Governments

Interest on Deposits

The maximum amount of interest that a member bank of the Federal Reserve System may pay on time and savings deposits is prescribed by the Board of Governors of the Federal Reserve System in its Regulation Q (12 CFR 217) issued pursuant to authority of section 19 of the Federal Reserve Act (12 U.S.C. 371b).

Under this authority, the Board has varied the maximum permissible rates from time to time in line with changes in nationwide banking and financial conditions. These readjustments in the Board's regulation have brought to light two problems growing out of provisions of State law.

1. Maximum rates of interest authorized to be paid by State banks on time and savings deposits are fixed in some States by State law at levels lower than those authorized by the Board. In such cases, of course, State law controls, and banks in those States may not pay interest at a rate higher than that prescribed by State statute. The result is that the banks subject to the State law are placed at a competitive disadvantage with respect to market instruments and with respect to banks in other States that are allowed to pay interest at a rate as high as that permitted by the Board.

2. It is the Board's understanding that in at least one State the law requires that interest on public deposits be paid at the highest rate prescribed by the appropriate Federal bank supervisory agencies, i.e., the Board of Governors of the Federal Reserve System for State member banks and the Federal Deposit Insurance Corporation for insured nonmember banks. In some situations State banks have not found it feasible to pay interest on time deposits at the maximum rate of 5-1/2 per cent currently allowed by Regulation Q. This has resulted in relatively large sums of public moneys being withdrawn from banks in those States where such legal provisions are operative, with resultant loss of funds from those banks and from the communities which they serve, and with some inconvenience to State officials.

Board of Governors of the
Federal Reserve System
April 19, 1966