

Minutes for April 26, 1966


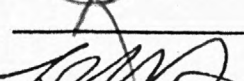
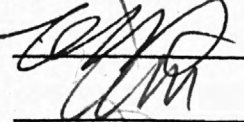
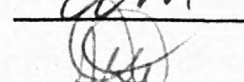
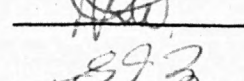
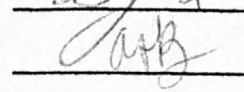
To: Members of the Board

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>893</u>
Gov. Brimmer	<u></u>

## Minutes of the Board of Governors of the Federal Reserve

System on Tuesday, April 26, 1966. The Board met in the Board Room  
at 10:00 a.m.

PRESENT: Mr. Robertson, Vice Chairman  
Mr. Shepardson  
Mr. Mitchell  
Mr. Daane  
Mr. Maisel

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. Molony, Assistant to the Board  
Mr. Farrell, Director, Division of Bank Operations  
Mr. Solomon, Director, Division of Examinations  
Mr. Johnson, Director, Division of Personnel  
Administration  
Mr. Hexter, Associate General Counsel  
Messrs. O'Connell and Shay, Assistant General  
Counsel  
Mr. Smith, Associate Adviser, Division of  
Research and Statistics  
Messrs. Goodman, Leavitt, Smith, and Thompson,  
Assistant Directors, Division of Examinations  
Mrs. Semia, Technical Assistant, Office of the  
Secretary  
Mrs. Heller, Senior Attorney, and Mr. Smith,  
Attorney, Legal Division  
Mr. Lawrence, Economist, Division of Research  
and Statistics  
Messrs. Egertson, Supervisory Review Examiner,  
Poundstone and Rumbarger, Review Examiners,  
and Kline, Assistant Review Examiner, Division  
of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on April 25, 1966, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to the Bank.

4/26/66

-2-

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

	<u>Item No.</u>
Letter to Peoples Union Bank & Trust Company, McKeesport, Pennsylvania, approving the establishment of a branch in Port Vue Borough.	1
Letter to Peoples Union Bank & Trust Company, McKeesport, Pennsylvania, approving the establishment of a branch at Sixth Avenue and Walnut Street.	2
Letter to Chase Manhattan Overseas Banking Corporation, New York, New York, modifying the terms of the Board's consent to its acquisition of shares of Privat-und Kommerzbank, Vienna, Austria.	3
Letter to Boston Overseas Financial Corporation, Boston, Massachusetts, granting consent to acquire additional shares of Banco Europeo de Negocios, Madrid, Spain.	4
Letter to the Federal Deposit Insurance Corporation regarding the application of Peoples State Bank, Artesia, New Mexico, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	5
Telegram to the Federal Reserve Bank of Boston regarding classification of member banks for the purpose of electing Class A and Class B directors.	6
Letter to the Federal Reserve Bank of Chicago approving the payment of salaries to the Bank's painters and electricians at specified rates.	7

4/26/66

-3-

International Banking Corporation. An inquiry had been received from the Treasury Department regarding matters under discussion between the Canadian Ministry of Finance and the United States Embassy relating to the acquisition of control of The Mercantile Bank of Canada, Montreal, Canada, by International Banking Corporation, an "agreement corporation" subsidiary of First National City Bank, New York, New York.

After discussion there was agreement with Vice Chairman Robertson's suggestion that the Treasury Department be furnished factual information as to the date (August 29, 1963) of Board approval of the acquisition of stock of Mercantile Bank by International Banking Corporation and the provisions of the Board's pertinent regulation (Regulation K, Corporations Engaged in Foreign Banking and Financing under the Federal Reserve Act) in regard to establishment of additional branches by foreign subsidiary banks of Edge Act and agreement corporations.

Messrs. Young, Shay, Goodman, and Poundstone then withdrew from the meeting.

Application of Denver U. S. Bancorporation. There had been distributed a memorandum dated April 18, 1966, from the Division of Examinations, with other pertinent papers, regarding the application of Denver U. S. Bancorporation, Inc., Denver, Colorado, to acquire shares of The Mercantile Bank and Trust Company, Boulder, Colorado.

At the time the application was filed, the Board received protests from The First National Bank of Denver and The Central Bank and

4/26/66

-4-

Trust Co., both of Denver, Colorado. The latter bank also requested that a public hearing be held. The Colorado State Bank Commissioner advised that the Banking Board recommended that the application be disapproved and requested that a public hearing be held. Because of lack of timeliness of the latter request, the Board was not required to order a public hearing, but did so under its discretionary authority.

The public hearing was held in Denver in October 1965. In his Report and Recommended Decision, the hearing examiner, Mr. David London, concluded: "On the entire record, I find that the financial history and condition, prospects, and character of management of Bancorporation and Mercantile are satisfactory and consistent with approval of the application. The findings heretofore entered with respect to the convenience and needs of the area principally involved, though not heavily weighted in favor of approval, are nevertheless sufficient to recommend such approval. The increase in the size and extent of Bancorporation's system resulting from the proposed acquisition will not be inconsistent with adequate and sound banking, the public interest, or the preservation of banking competition. By reason of all the foregoing, and in the light of the factors set forth in section 3(c) of the Act, I conclude that the proposed acquisition would be consistent with the public interest and that the application should, therefore, be approved."

Central Bank and Trust Co. filed a brief on exceptions to the hearing examiner's report and requested an opportunity to appear before

4/26/66

-5-

the Board and present oral argument. The Colorado State banking authorities filed a statement indicating that their absence of exceptions to the hearing examiner's report was intentional, but was not to be construed as concurrence therewith.

On the basis of the record made at the public hearing, the Division of Examinations recommended that the proposed acquisition be approved. The Division also recommended that the request for oral argument be denied.

After summary comments by Mr. Thompson based principally on the material that had been distributed, the staff responded to questions by members of the Board directed principally toward the request for oral argument. Agreement was expressed with the recommendation for denial of the request.

Statements by members of the Board then disclosed that all were favorably disposed toward approval of the application except Vice Chairman Robertson, who found a lack of valid arguments in favor of the proposal. In his view, consummation of the transaction was not warranted as a solution of Mercantile Bank's management succession problem or future capital needs, or by the convenience of the Boulder community, where banking needs were already being met adequately. The State had objected to the further expansion of Denver U. S. Bancorporation, one of the subsidiaries of which was the second largest bank in Colorado, and he believed great weight should be given to the views of a State in considering what kind

4/26/66

-6-

of banking structure should be permitted. Those views should not be overruled unless the public interest would clearly be benefited, and he could not see that this would be true in the present case.

The application of Denver U. S. Bancorporation was thereupon approved, Vice Chairman Robertson dissenting. It was understood that an order and statement reflecting this decision would be prepared for the Board's consideration, along with a dissenting statement by the Vice Chairman.

Application of United Bancshares of Florida. There had been distributed a memorandum dated April 20, 1966, from the Division of Examinations, with other pertinent papers, regarding the application of United Bancshares of Florida, Inc., Miami Beach, Florida, to become a bank holding company through the acquisition of 80 per cent or more of the outstanding voting shares of The Miami Beach First National Bank, Miami Beach, Florida, and United National Bank, Miami, Florida. (Applicant already owned a controlling interest in Coral Gables First National Bank, Coral Gables, Florida.) The Division recommended approval, as had the Federal Reserve Bank of Atlanta. The Division further recommended that, if the application were approved, the letter so informing the applicant include a statement to the effect that the applicant's debt, which was short-term and for which no definite plans of refinancing had been formulated, was considered sizable and the Board would look with disfavor upon any action on the applicant's part that would result in

4/26/66

-7-

incurring more debt prior to a relatively significant improvement in the present debt to net worth ratio.

Mr. Thompson commented on the salient features of the application, after which members of the Board posed a series of questions regarding the financial structure of the applicant and the condition of Miami Beach First National Bank, which would be the principal subsidiary. It was brought out that the bank had been operated conservatively, yet profitably, and that it had a strong capital position; also, that the management of each of the banks involved in the proposal was headed by an individual who would serve additionally as president of the applicant holding company and who had exhibited a high level of competence.

The members of the Board then stated their positions, which indicated that all agreed with the recommendation of the Division that the application be approved.

Governor Mitchell, however, expressed reservations as to the justification for the recommended caveat regarding debt position, which seemed to him unnecessary in view of the operating record.

Vice Chairman Robertson expressed the view, on the other hand, that the admonition as to debt position was warranted and should not cause any great problem to the parties concerned in view of the growth potential and earnings of the subsidiary banks. As to the application per se, he said that he was willing to go along with approval because



4/26/66

-8-

the proposal would, to some degree, provide greater competition to the dominating bank in the area, it would in effect merely tie into a holding company structure components that were now in a chain banking structure, and there had been no objection from the State authorities.

The application of United Bancshares of Florida was thereupon approved unanimously, it being understood that an order and statement would be drafted for the Board's consideration.

Messrs. O'Connell, Smith (Research and Statistics), Thompson, Lawrence, Smith (Legal Division), Egertson, Kline, and Rumbarger and Mrs. Heller then withdrew from the meeting.

Examination of Kansas City Reserve Bank. Mr. Smith summarized information disclosed through the examination of the Federal Reserve Bank of Kansas City made by the Board's field examining staff as of January 4, 1966, his comments being based on the report of examination and related memoranda that had been circulated to the Board. Among other things, he commented on the borrowing record of particular member banks in the Tenth District and the steps being taken by management of the Reserve Bank.

After discussion, it was agreed that, aside from a question raised in regard to the Denver Branch building project, there were no matters that appeared to warrant action on the part of the Board.

Denver Branch building (Item No. 8). During discussion of the examination report of the Federal Reserve Bank of Kansas City, question

4/26/66

-9-

was raised whether, in view of present inflationary pressures, it might be advisable to postpone construction projects such as the new Denver Branch building. While no firm conclusions were reached, there appeared to be general agreement that such projects should be reviewed carefully under existing circumstances.

It was noted that a letter had been received from the Federal Reserve Bank of Kansas City asking authorization to call for bids for the Denver project, and agreement was expressed with a suggestion that the Bank be asked to furnish views bearing upon the justification for proceeding with the project at this time. A copy of the letter subsequently sent to the Bank is attached as Item No. 8.

Luncheon for research group. The suggestion by Mr. Brill in a memorandum of April 21, 1966, that a luncheon be given on May 13, 1966, in the Board's dining rooms, in connection with the forthcoming meeting of the Social Science Research Council's Subcommittee on the Monetary Mechanism was approved unanimously.

The meeting then adjourned.

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

#### Appointments

Harold C. Barnett as Summer Research Assistant, Division of International Finance, with basic annual salary at the rate of \$5,702, effective the date of entrance upon duty.

Harry Tarbell, III, as Summer Research Assistant, Division of Data Processing, with basic annual salary at the rate of \$5,181, effective the date of entrance upon duty.

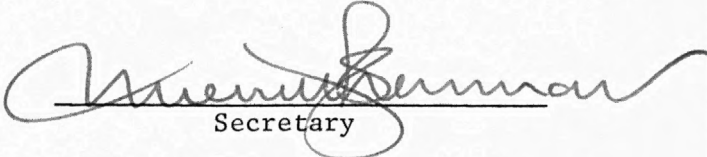
4/26/66

-10-

Acceptance of resignations

Raymond L. M. Holmes, Digital Computer Programmer, Division of Research and Statistics, effective at the close of business April 22, 1966.

Paul F. Quirante, Statistical Clerk, Division of Research and Statistics, effective at the close of business April 29, 1966.

  
Secretary

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

Item No. 1  
4/26/66



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 26, 1966

Board of Directors,  
Peoples Union Bank & Trust Company,  
McKeesport, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Peoples Union Bank & Trust Company, McKeesport, Pennsylvania, of a branch in the vicinity of the intersection of Washington Boulevard and Romine Avenue, Port Vue Borough, Allegheny County, Pennsylvania, 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  
4/26/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 26, 1966



Board of Directors,  
Peoples Union Bank & Trust  
Company,  
McKeesport, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Peoples Union Bank & Trust Company, McKeesport, Pennsylvania, of a branch at the intersection of Sixth Avenue and Walnut Street, McKeesport, Allegheny County, Pennsylvania, 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. 3  
4/26/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 26, 1966.



Chase Manhattan Overseas  
Banking Corporation,  
1 Chase Manhattan Plaza,  
New York, New York. 10005

Gentlemen:

Reference is made to the Board's letter of April 11, 1966, granting consent to your Corporation to purchase and hold up to 100 per cent of the shares of Privat-und Kommerzbank, Vienna, Austria, provided such shares were acquired within one year from the date of the letter.

As requested in your letter of April 14, 1966, the proviso at the end of the second paragraph of the Board's letter of April 11, 1966, is amended to read: "provided that not less than 75 per cent of such shares are 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. 4

4/26/66



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 26, 1966.

Boston Overseas Financial Corporation,  
67 Milk Street,  
Boston, Massachusetts. 02106

Gentlemen:

As requested in your letter of April 5, 1966, the Board of Governors grants consent for your Corporation to purchase and hold 10,000 additional shares, par value Pesetas 1,000 each, of Banco Europeo de Negocios ("Eurobanco"), Madrid, Spain, at a cost of approximately US\$170,000, provided such stock is acquired within one year from the date of this letter.

The Board also approves the purchase and holding of shares of Eurobanco within the terms of the above consent in excess of 10 per cent of your Corporation's capital and surplus.

The foregoing consent is given with the understanding that the investment now being approved, combined with other foreign loans and investments of your Corporation, The First National Bank of Boston and Bank of Boston International, 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. The Board considers that compliance with the priorities expressed in Guideline 4 would require that total nonexport credits to developed countries in Continental Western Europe not exceed the amount of such loans and investments as of the end of 1965, unless this can be done without inhibiting the bank's ability to meet all reasonable requests for priority credits within the over-all target.

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  
4/26/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 26, 1966

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

Dear Mr. Randall:

Reference is made to your letter of April 14, 1966, concerning the application of Peoples State Bank, Artesia, New Mexico, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

The Reserve Bank's transmittal letter to the subject bank in connection with the report of examination as of March 22, 1965, urged the bank's board of directors to improve the bank's position with respect to its large volume of criticized loans. The letter also recommended that unless the bank's capital position was improved by a material reduction in risk assets and problem loans, serious consideration should be given to the sale of additional capital stock for cash.

There have been no other 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.



Item No. 6  
4/26/66**TELEGRAM**  
LEASED WIRE SERVICEBOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

April 26, 1966

Ellis - Boston

Relet April 11 from Mr. Stone and subsequent telephone conversation between him and Mr. Daniels of Board's staff, Board has changed the classifications of member banks in the First District for purposes of electing Class A and Class B directors to the following:

<u>Group</u>	<u>Banks with capital and surplus of:</u>
1	\$6,000,000 and more
2	\$1,000,000 and more, but less than \$6,000,000
3	Less than \$1,000,000

(Signed) Merritt Sherman

SHERMAN

Item No. 7  
4/26/66

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



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 26, 1966

CONFIDENTIAL (FR)

Mr. Charles J. Scanlon, President,  
Federal Reserve Bank of Chicago,  
Chicago, Illinois. 60690.

Dear Mr. Scanlon:

As requested in your letter of April 13, the Board of Governors approves the payment of salary to painters at the Federal Reserve Bank of Chicago at the following rates, effective retroactive to April 1, 1966:

Head Painter	\$9,568.00
Painter	8,611.20

The Board also approves the payment of salary to Class B Electricians at the rate of \$8,382.40 effective April 18, 1966. Since this is part of a three-year contract, further increases to \$8,694.40 effective April 18, 1967, and \$9,006.40 effective April 18, 1968, are approved.

It is noted that these rates, which were accepted by the Building Managers Association of Chicago, are above the maximums of the grades in which the positions are classified by the Bank.

Very truly yours,  
(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 8  
4/26/66

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 27, 1966

Mr. George H. Clay, President,  
Federal Reserve Bank of Kansas City,  
Kansas City, Missouri. 64109.

Dear Mr. Clay:

This refers to the new building for the Denver Branch, and in particular to your letter of April 18, 1966, asking that the Board authorize your Bank to call for bids on this project on the basis of the final plans and specifications that have been submitted.

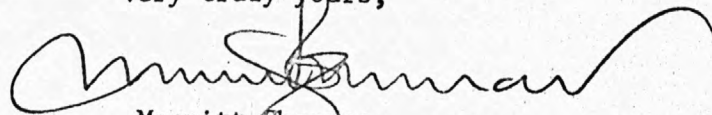
Before acting on this matter, the Board would like to have comments from your Bank as to whether or not, in the light of existing inflationary pressures, it would be appropriate at this time to call for bids on the new Denver building.

The Board recognizes that there has long been a pressing need for new quarters for the Denver Branch, and that the economic factors bearing on inflation vary throughout the country. Accordingly, it would be most helpful if your comments included information with respect to the following points:

- (1) The effect on the operations of the Denver Branch if the start on the new building were delayed several months.
- (2) The present employment situation in the building trades in the Denver area--i.e., whether there is unemployment, a scarcity of labor, or a normal market.
- (3) The experience Denver contractors are having with buildings now under construction in regard to the availability of supplies, and especially in regard to whether scarcities are inflating costs.

Any other comments which you believe might be helpful to the Board would, of course, be greatly appreciated.

Very truly yours,



Merritt Sherman,  
Secretary.