

Minutes for May 4, 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 Wednesday, May 4, 1966. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Solomon, Adviser to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Associate General Counsel
Mr. Shay, Assistant General Counsel
Mr. Koch, Deputy Director, Division of Research and Statistics
Mr. Partee, Associate Director, Division of Research and Statistics
Mr. Gramley, Associate Adviser, Division of Research and Statistics
Mr. Sammons, Associate Director, Division of International Finance
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Leavitt, Assistant Director, Division of Examinations
Miss Eaton, General Assistant, Office of the Secretary
Mr. Ring, Technical Assistant, Division of Bank Operations
Mr. Egertson, Supervisory Review Examiner, Division of Examinations

Approved items. The following items, copies of which are attached to these minutes under the respective numbers indicated, were approved unanimously after consideration of background material that

5/4/66

-2-

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 O'Hare International Bank, National Association, Chicago, Illinois, granting its request for permission to maintain reduced reserves.	1
Letter to the Federal Deposit Insurance Corporation regarding the application of Rogers County Bank, Claremore, Oklahoma, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	2
Letter to the Federal Deposit Insurance Corporation regarding the application of Commercial Security Bank, Ogden, Utah, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	3
Letter to The Sumitomo Bank of California, San Francisco, California, approving an extension of time to establish a branch in Anaheim.	4
Memorandum from the Division of Bank Operations recommending that the Secret Service be asked to review the plans and specifications for the proposed new Denver Branch building.	5

Report on competitive factors. A report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Wellesley National Bank, Wellesley, Massachusetts, into South Shore National Bank, Quincy, Massachusetts, was approved unani-
mously for transmittal, the conclusion being stated as follows:

5/4/66

-3-

The proposed merger of The Wellesley National Bank into South Shore National Bank, Quincy, would combine the second and third largest commercial banks in Norfolk County and would eliminate the remaining locally headquartered commercial bank in Wellesley. While existing competition between the participants is not significant, consummation of the proposal would eliminate potential for more competition between them. The effect of the proposed merger on competition would be adverse.

Application of State Bank and Trust Company. There had been distributed drafts of an order and statement reflecting the Board's approval on April 21, 1966, of the application of The State Bank and Trust Company, Defiance, Ohio, to merge The Ney State Bank, Ney, Ohio.

After discussion, the issuance of the order and statement was authorized, with the understanding, however, that the issuance would be deferred until newspaper publication of the proposal by the banks, as required by law, had been completed.

First National Bank of Miami (Item No. 6). There had been distributed a memorandum from the Legal Division dated May 2, 1966, regarding the request of The First National Bank of Miami, Miami, Florida, for a section 301 determination.

The memorandum pointed out that Coral Way National Bank, Miami, was organized at the request of the Comptroller of the Currency to take over some of the assets and continue the operation of a bank at premises formerly occupied by Five Points National Bank, which had become financially distressed. Through its wholly-owned subsidiary, Third and First, Inc., First National Bank of Miami established a new corporation, First

5/4/66

-4-

Coral Way Corporation, to which it advanced \$500,000. That corporation had supplied \$388,000 of the \$400,000 initial capital structure of Coral Way National Bank.

Section 2(c) of the Banking Act of 1933 defines "holding company affiliate" to include any corporation that "owns or controls, directly or indirectly, ... a majority of the shares of capital stock of a member bank." Under this definition, First National Bank, First and Third, Inc., and First Coral Way Corporation were all holding company affiliates and therefore subject to the requirements and restrictions of section 5144 of the Revised Statutes, including the provision that shares controlled by a holding company affiliate "shall not be voted unless such holding company affiliate shall have first obtained a voting permit" from the Board. However, section 301 of the Banking Act of 1935 amended section 2(c) to exclude from the holding company affiliate category "any organization which is determined by the Board of Governors ... not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling banks." First National Bank had requested the Board to make such a determination with respect to itself, Third and First, Inc., and First Coral Way Corporation.

The draft of proposed reply would explain that the Board was unable to make a determination that First National Bank of Miami was not engaged as a business in holding bank stock or in managing or controlling a bank, and thereby to exempt First National from the definition of "holding company affiliate."

5/4/66

-5-

Although the bank had not applied for a voting permit, the proposed reply would also offer comments in that regard. It would indicate that the indirect acquisition by First National of stock of Coral Way National Bank appeared to involve a violation of (1) the provision of section 5136 of the Revised Statutes prohibiting a national bank from purchasing corporate stocks for its own account, and (2) the provisions of section 5155 of the Revised Statutes prohibiting the establishment of branches by national banks except under certain conditions. The reply would express a judgment that it would not be in the public interest to permit a holding company affiliate to vote the stock of a national bank where the holding company affiliate's acquisition and retention of such stock violated provisions of the Federal statutes designed to regulate the activities of national banks; and it would indicate that the Board would consider the granting of a voting permit in such circumstances to be contrary to the public interest.

In discussion of the subject, no disagreement was expressed by members of the Board with the correctness of the legal reasoning reflected in the proposed letter. However, it was noted that the circumstances involved in the request for a section 301 determination resulted from action taken by First National Bank at the request, or at least with the concurrence, of its supervisory authority (the Comptroller of the Currency) in order that banking operations might be continued at the location of the former Five Points National Bank, a bank known to have been in failing

5/4/66

-6-

condition. Various alternatives that might be available to First National Bank if it was unable to obtain a section 301 determination or a voting permit were explored. Also among the factors considered during the discussion was the basic similarity between the Miami situation and that involved in the recent proposal by Chase Manhattan Bank (National Association), New York, to acquire stock of Liberty National Bank and Trust Company of Buffalo.

Vice Chairman Robertson then suggested that the letter to First National Bank of Miami stop short of expressing a conclusion on the matter of a voting permit, thus affording management of the bank an opportunity, if it so desired, to discuss the question with the Board's staff before a final decision on that point was reached. There being general agreement with that suggestion, unanimous approval was given to a letter to the bank in the form attached as Item No. 6.

Local destruction of Federal Reserve notes (Item No. 7). There had been distributed a memorandum dated May 3, 1966, from the Division of Bank Operations describing proposed procedures for apportioning credit for unfit \$1 Federal Reserve notes destroyed locally by the Reserve Banks. A letter of transmittal to the Reserve Banks was submitted with the memorandum.

The memorandum pointed out that on January 6, 1965, the Board had approved a recommendation of the Presidents' Conference that redemption credit for \$1 notes be allocated on the basis of the previous year's

5/4/66

-7-

issues. Had legislation authorizing local destruction been passed at that time as expected, the redemption credit for \$1 notes destroyed in 1965 would have been based on issues from the time of inception (in November 1963) through 1964, and the credit during 1966 would have been based on issues during 1965. However, because of the long delay that had developed the Division of Bank Operations now recommended that the Board approve apportioning credit this year on the basis of issues from November 1963 through 1965. The use of the cumulative base had been agreed to by the Presidents' Conference Committee on Currency and Coin.

The procedures contemplated for weekly and end-of-month note clearings through the Interdistrict Settlement Fund were as follows:

\$1 Federal Reserve notes delivered by the Banks to their currency verification and destruction units would be retained in their balance sheets pending the clearing, with no change from the present estimating practices with regard to distribution between "own" notes and notes of other Banks.

The total of the \$1 notes delivered to the currency verification and destruction units, for the district, would be wired to the Division of Bank Operations each Wednesday and last business day of each month.

The Division of Bank Operations would calculate each Bank's portion of the notes turned over to currency verification and destruction units by all Reserve Banks during the period on the basis of the formula approved by the Board.

Settlement would then be made by direct entries to the Interdistrict Settlement Fund and a book message would be sent to all Banks and Assistant Federal Reserve Agents authorizing the removal of the notes from the balance sheets of the Banks and from the outstanding note figures of the Agents.

5/4/66

-8-

A draft of the proposed procedures had been distributed to the Reserve Banks for comment in June 1965, and most of the Banks' suggestions had been adopted.

Mr. Daniels commented that H.R. 5305, a bill to authorize local destruction of Federal Reserve notes, had passed the House in a form including an amendment authorizing audit by the Comptroller General of verification and destruction procedures and the accounting therefor. The bill, which had passed the Senate previously in a form that did not include this amendment, had now been re-introduced in the Senate as S. 1308, and that bill was expected to be passed by the Senate and signed by the President in the near future. It was understood that the Treasury Department would have its regulations covering the destruction of notes in readiness within the next few days. Accordingly, it was proposed to advise the Reserve Banks of the procedures for apportioning redemption credit and for effecting clearings through the Interdistrict Settlement Fund, in order that local destruction of the large accumulation of unfit \$1 notes might begin promptly.

In the ensuing discussion a number of questions were raised by members of the Board for purpose of clarification. One question raised, by Governor Maisel, was why the local destruction procedure would extend only to \$1 notes. When staff comments indicated that this was a matter for determination by the Treasury, Governor Maisel said it was his impression from reading the House Committee report on H.R. 5305 that it contemplated the destruction of higher denomination notes at the Reserve Banks,

5/4/66

-9-

along with the \$1 notes, as a measure that would result in a saving to the Government. It was understood that the staff would review the report and also would give further consideration to whether it would seem desirable for the Board to make a recommendation to the Treasury that the local destruction procedure be expanded to include notes of higher denominations.

Unanimous approval then was given to the sending of a letter to the Presidents of the Federal Reserve Banks in the form attached as Item No. 7, with copies to the Federal Reserve Agents.

Competitive position of savings and loan associations. Upon request, Mr. Solomon (Examinations) summarized the representations made during visits to Chairman Martin's office yesterday by Messrs. Howard J. Stoddard, Chairman of Michigan National Bank, Lansing, Michigan, and Bart Lytton, President and Chairman of Lytton Financial Corporation, Los Angeles, California. In substance, the visitors had stressed the difficulties being experienced by savings and loan associations due to the reduced inflow of savings funds, this being attributed principally to bank competition in the form of higher rates on certificates of deposit, including certificates in smaller denominations. Associations were reportedly encountering a severe liquidity problem, expected to become intensified at the time of the midyear dividend payment date. Suggestions offered by Messrs. Lytton and Stoddard were to prohibit the issuance of certificates of less than a certain amount or to cut back the maximum rates payable on certificates issued to individuals.

5/4/66

-10-

In this connection reference also was made to a letter dated April 29, 1966, from Chairman Horne of the Federal Home Loan Bank Board to Chairman Martin expressing concern about the effects of the shift in savings from the standpoint of the prospective burden on the Home Loan Bank System in attempting to deal with a severe liquidity situation and from the standpoint of a prospective untoward decline in the volume of funds available to the mortgage market. The letter also expressed apprehension that present conditions were placing a short-term strain on savings and loan associations that could upset public confidence in financial institutions generally.

Governor Maisel, during the ensuing discussion, referred to estimates at a mortgage credit conference he had attended recently that the net inflow to savings and loan associations might fall from around \$8-1/2 billion in 1965 to about \$5 billion this year, and that the funds available for new loans might drop from around \$24 billion in 1965 to about \$19 billion this year. He understood that particularly acute problems might develop for associations in certain areas, such as Detroit, Los Angeles, and San Francisco. He referred to the \$11 billion in additional borrowing authority available to the Home Loan Bank System and then suggested that study might be directed toward several questions, including the following: (1) possible assistance to the Home Loan Bank Board in connection with the marketing of additional issues if and when this became necessary; (2) the question of standing behind the Treasury

5/4/66

-11-

to enable it to make available to the Home Loan Bank System promptly, if needed, the sum of about \$1 billion to which it was understood that that System had a drawing right; (3) the possibility of making funds available through the Federal Reserve System, in an emergency, to the Home Loan Banks or directly to savings and loan associations; (4) close continuing study by the Board's staff of marginal savings and loan situations.

Chairman Martin commented on the desirability of keeping in close touch with the Home Loan Bank Board in the present circumstances and requested that Governor Maisel take the lead, on behalf of the Board, in maintaining effective liaison. Governor Maisel accepted the assignment and later suggested arranging a luncheon meeting of available members of the Board of Governors with the members of the Home Loan Bank Board at an early date. It was agreed that such a meeting should be arranged.

Bank merger proceeding. Mr. Solomon (Examinations) reported that it was anticipated that Vice President Stephenson of the Federal Reserve Bank of Atlanta would be subpoenaed to appear as a witness for the plaintiff in the antitrust proceeding instituted by the Department of Justice against the merger of Third National Bank in Nashville and the Nashville Bank and Trust Company, both of Nashville, Tennessee. It was agreed that there would be no objection to Mr. Stephenson's appearing in response to subpoena.

Visitor program. Governor Shepardson noted that arrangements were being made for a visit to the Board's offices on May 23, 1966, by

5/4/66

-12-

a second group of officers from Chase Manhattan Bank (National Association), New York City, in connection with a Washington seminar. He said it was now clearly understood by the bank that it was unnecessary to go through a private intermediary organization in order to arrange such a visit.

The meeting then adjourned.

Secretary's Notes: Attached as Item No. 8 is a copy of a letter sent today to counsel for Building, Inc., Abilene, Texas, granting that corporation a temporary, revokable section 301 determination. The letter was sent pursuant to the authorization given by the Board on December 17, 1965, and reaffirmed at its meeting on January 4, 1966.

On May 3, 1966, Governor Shepardson approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

Transfer

Bernice Bell, from a secretarial position in the Recording and Stenographic Section of the Division of Examinations to a secretarial position in the Administration Section of that Division, with no change in basic annual salary at the rate of \$5,181, effective May 8, 1966.

Acceptance of resignations

Gerard E. Phillips, Messenger, Division of Administrative Services, effective at the close of business May 6, 1966.

Bette L. Robinson, Statistical Assistant, Division of International Finance, effective at the close of business May 13, 1966.

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

5/4/66

-13-

Appointments

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

James L. Ellis as Operator, Tabulating Equipment, Division of Data Processing, with basic annual salary at the rate of \$4,797, effective the date of entrance upon duty.

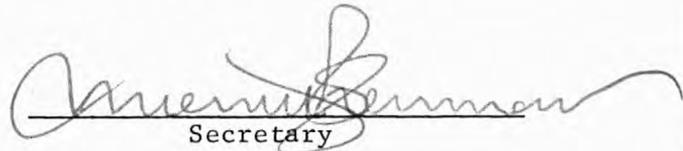
Charles K. Harley as Summer Research Assistant, Division of International Finance, with basic annual salary at the rate of \$6,476, effective the date of entrance upon duty.

Salary increases, effective May 8, 1966

Eleanor Q. Clarkson, Legal Records Clerk, Legal Division, from \$4,797 to \$4,953 per annum.

Rosemary A. Darlington, Economist, Division of International Finance, from \$7,733 to \$7,987 per annum.

Alice Geris, Charwoman, Division of Administrative Services, from \$3,507 to \$3,626 per annum.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1

5/4/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 4, 1966

Board of Directors,
O'Hare International Bank,
National Association,
Chicago, Illinois.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the O'Hare International Bank, National Association, to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective as of the date its location was changed to within the city limits of Chicago.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2
5/4/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 4, 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 22, 1966, concerning the application of Rogers County Bank, Claremore, Oklahoma, 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. 3
5/4/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 4, 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 22, 1966, concerning the application of Commercial Security Bank, Ogden, Utah, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

The bank's capital position at the time of the 1965 examination was found to be somewhat less than satisfactory, and the Reserve Bank suggested consideration be given to means to improve this condition. An examination of subject was started by the Reserve Bank on March 14, 1966. While this latter report has not yet been completed, preliminary figures indicate the bank's capital position continues to be somewhat less than satisfactory.

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.

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

Item No. 4
5/4/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 4, 1966



Board of Directors,
The Sumitomo Bank of California,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to November 4, 1966, the time within which The Sumitomo Bank of California, San Francisco, California, may establish a branch in the vicinity of the intersection of Beach Boulevard and Ball Road, Anaheim, California.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEMItem No. 5
5/4/66

Office Correspondence

Date April 27, 1966To Board of GovernorsSubject: Denver Branch BuildingFrom Division of Bank Operations

Final plans and specifications have been received for the proposed new building for the Denver Branch of the Federal Reserve Bank of Kansas City. The alarm and surveillance system proposed for the Bank's protection depends to a large extent on new techniques and devices which have not been employed to any great extent heretofore in Reserve Bank buildings. For this reason, we should like to take advantage of the fact that the Secret Service is now conducting surveys of security arrangements at Federal Reserve Banks and have the Secret Service review the plans and specifications for the Denver Branch.

Since this would be a departure from the usual procedures in review of building plans, we should like to have the Board's prior approval.



M. B. Daniels,
Assistant Director,
Division of Bank Operations.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 6

5/4/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 4, 1966

Mr. Ray F. Basten,
Senior Vice President and Comptroller,
The First National Bank of Miami,
Miami, Florida. 33101

Dear Mr. Basten:

This is in response to your letters of March 2, March 11, and March 30, requesting determinations by the Board of Governors that The First National Bank, its wholly-owned subsidiary, Third and First, Inc., and the latter's wholly-owned subsidiary, First Coral Way Corporation, are "not . . . engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks"

First Coral Way Corporation owns all of the outstanding shares of Coral Way National Bank, Miami, Florida, except for directors' qualifying shares. Consequently, that corporation, Third and First, Inc., and your Bank fall within the basic definition of "holding company affiliate" in section 2(c) of the Banking Act of 1933 (12 U.S.C. 221a), which includes any corporation that "owns or controls, directly or indirectly, . . . a majority of the shares of capital stock of a member bank" However, section 2(c), as amended by section 301 of the Banking Act of 1935, also provides that the term "holding company affiliate" shall not include (except for the purposes of section 23A of the Federal Reserve Act) any corporation as to which the Board of Governors has made a determination of the kind described in the preceding paragraph.

The legislative history of the 1935 amendment, as well as the relevant language of the statute itself, indicate that Congress did not intend to exempt from the "holding company affiliate" definition a company that is principally engaged in banking and owns or controls another bank, which is the situation presented in this case. Accordingly, the Board is unable to make a determination that your Bank is not engaged as a business in holding bank stock or in managing or controlling a bank, and thereby to exempt your Bank from the definition of "holding company affiliate".

Mr. Ray F. Basten

-2-

As you are aware, section 5144 of the U. S. Revised Statutes (12 U.S.C. 61) provides that "shares controlled by any holding company affiliate of a national bank shall not be voted unless such holding company affiliate shall have first obtained a voting permit" from the Board of Governors. The staffs of the Federal Reserve Bank of Atlanta and the Board of Governors are available for discussion of this aspect of your situation.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 7
5/4/66

S-1991

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 6, 1966.



Dear Sir:

Enclosed is a copy of H.R. 5305 as it was reported out by the Committee on Banking and Currency of the House of Representatives and passed by the House on May 2, 1966. In the interest of expediting the legislation, the bill was then re-passed in the House as S. 1308, with the amendment directing the Comptroller General to audit "the cancellation and destruction, and the accounting with respect to such cancellation and destruction, of any currency of the United States unfit for circulation...." The bill passed the Senate yesterday.

Also enclosed is a statement of "Procedures for Apportioning Credit among Federal Reserve Banks for \$1 Federal Reserve Notes Destroyed Without Sort by Bank of Issue." These procedures provide for a weekly and month-end settlement through the Interdistrict Settlement Fund of all unfit \$1 Federal Reserve notes turned over to the currency verification and destruction units during the preceding period.

Credit for the notes cleared through the settlement will be allocated on the basis of net issues of \$1 notes by the Federal Reserve Agents. The percentages will remain the same until February 1967 and will be based on net issues from November 1963 to December 1965.

These procedures supplement outstanding instructions for handling unfit Federal Reserve notes (F.R.L.S. #5800) to the extent \$1 notes are destroyed at the Reserve Banks. The amendments will be incorporated in revised instructions in due course.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman".

Merritt Sherman,
Secretary.

Enclosures.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
(Enclosure S-1991-a with addressed copies only)

PROCEDURES FOR APPORTIONING CREDIT AMONG THE
FEDERAL RESERVE BANKS FOR \$1 FEDERAL RESERVE NOTES
DESTROYED WITHOUT SORT BY BANK OF ISSUE

1. Federal Reserve Banks and branches destroying unfit \$1 Federal Reserve notes will maintain two additional accounts, as follows:

- (1) For Federal Reserve notes of own Bank^{1/} delivered to currency verification and destruction unit, but not yet cleared through settlement.
- (2) For Federal Reserve notes of other Federal Reserve Banks delivered to currency verification and destruction unit, but not yet cleared through settlement.

2. The accounts will be charged with a pro rata portion of the amount of cancelled Federal Reserve notes delivered to the currency verification and destruction unit. The amounts allocated to the two accounts will be determined by each office on the basis of a periodic sampling or test check of the notes of own Bank and of other Banks received from circulation.

3. The amount in the first account will be reported on form FR 34 in the item "Federal Reserve notes: Forwarded for redemption," and that in the second account will be reported in the item "F.R. notes of other F.R. Banks."

4. The total of the two accounts at the close of business each Tuesday and the next to the last business day each month, combined for the district, will be wired to reach the Board (Division of Bank Operations) by 1:30 p.m. each Wednesday and the last business day of the month under code CYROR, the definition of which is:

"Unfit \$1 Federal Reserve notes were turned over to currency verification and destruction unit (units) of this Bank for destruction and credit during period ending _____ (date) in total amount of \$_____."

In the case of a holiday observed by all the Banks and the Board, the dispatch of wires and the note clearing will take place one day earlier. In the case of holidays observed by one or more Banks or the Board advance notice will be given with regard to the clearing.

5. The Board's Division of Bank Operations will calculate each Bank's portion of the notes turned over to currency verification

^{1/} Branches may wish to designate the account as Federal Reserve notes of parent Bank, in order to conform with form FR 34.

and destruction units by all Reserve Banks during the period on the basis of the established percentage allocations.

NOTE: Percentages to be used for the year ending January 31, 1967, are based on net issues of such notes by the Federal Reserve Agent through December 1965. The percentages shown below have been adjusted where necessary for notes stored at cash agent banks, since these notes will not have been in circulation.

<u>Federal Reserve Bank</u>	<u>Per Cent of Total</u>
Boston	5.251983
New York	13.629619
Philadelphia	6.864580
Cleveland	6.483380
Richmond	10.339184
Atlanta	11.832294
Chicago	15.607012
St. Louis	4.938635
Minneapolis	2.359525
Kansas City	4.622864
Dallas	5.024382
San Francisco	<u>13.046542</u>
Total	100.0

6. Settlement will be made by direct entries to the Interdistrict Settlement Fund. If a Bank's portion of the combined total of notes delivered for destruction and credit exceeds the amount it delivered for destruction and credit during the period, its participation in the Fund will be decreased by such excess. If a Bank's portion of the combined total of notes delivered for destruction and credit is less than the amount it delivered for destruction and credit during the period, its participation in the Fund will be increased by such difference.

7. The Division of Bank Operations will dispatch a book message to all Banks and Assistant Federal Reserve Agents at about 2:30 p.m. on the settlement day under code CYRUS, the definition of which is:

"Your Bank's portion all \$1 Federal Reserve notes delivered to currency verification and destruction units in period ending (date) is \$ (1) ."

Federal Reserve Agent is requested to make settlement direct with your Bank for the amount. We debit or credit your account Interdistrict Settlement Fund today \$ (2) to adjust for difference between amount your Bank delivered for destruction and credit and your Bank's portion of total amount delivered for destruction and credit at all Reserve Banks during period."

8. Upon receipt of Board's wire each Bank will make an entry closing out the previous day's balances in the two currency verification and destruction unit accounts, with the offsetting entries being reflected in the Federal Reserve Notes Outstanding and the Interdistrict Settlement Fund accounts in accordance with items 1 and 2, respectively, in the settlement wire.

9. Branches destroying unfit Federal Reserve notes will settle with their head offices.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 8

5/4/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 4, 1966.

Mr. Randall C. Jackson,
Jackson & Jackson,
Attorneys at Law,
714 Citizens National Bank Building,
Abilene, Texas. 79601

Dear Mr. Jackson:

This refers to the request contained in your letter of April 5, 1966, addressed to the Federal Reserve Bank of Dallas, for a determination by the Board of Governors of the Federal Reserve System as to the status of Building, Inc., Abilene, Texas, as a holding company affiliate.

From the information presented, the Board understands that Building, Inc., owns and operates a motor inn and restaurant; that it proposes to acquire 19,402 of the 20,160 outstanding shares of capital stock of The First National Bank of Hale Center, Hale Center, Texas, and thus become a holding company affiliate of that bank; and that it does not, directly or indirectly, own or control any stock of, or manage or control, any other banking institution.

The Board is in process of reviewing its interpretation of the last paragraph of section 2(c) of the Banking Act of 1933, as amended (12 U.S.C. 221a), as it applies to situations similar to that presented by your request for a determination pursuant to that provision of law. In order to avoid delay that might inconvenience Building, Inc., the Board has determined, in accordance with its interpretation of that statutory provision in prior cases of this type, that such company is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling banks, banking associations, savings banks, or trust companies. Accordingly, Building, Inc., will not be deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act (12 U.S.C. 371c) and will not need a voting permit from the Board of Governors in order to vote the bank stock which it will own.

Mr. Randall C. Jackson

-2-

1590

As stated above, the interpretation of section 2(c) is under review by the Board. As a result of that review, it is possible that the Board's interpretation of the statute may be so modified that companies such as Building, Inc., would not be entitled to "favorable" determinations under the last paragraph of section 2(c). In that event, the Board may rescind the determination referred to in the preceding paragraph.

In any event, if the facts should at any time change in such a manner as to indicate that Building, Inc., might be so engaged, this matter should again be submitted to the Board for another determination in the light of the new facts. A change in facts would include, among other things, any additional acquisitions of bank stock even though not constituting control.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.