

Minutes for July 20, 1966

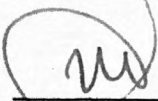

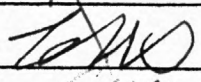
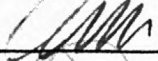
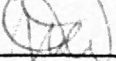

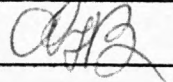
To: Members of the Board

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	<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 a meeting of the available members of the Board of Governors of the Federal Reserve System on Wednesday, July 20, 1966.

The meeting was held in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Bakke, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Sammons, Associate Director, Division of International Finance
Mr. Thompson, Assistant Director, Division of Examinations
Miss Eaton, General Assistant, Office of the Secretary
Mr. McClintock, Supervisory Review Examiner, Division of Examinations

The following actions were taken subject to ratification at the next meeting of the Board at which a quorum was present:

Approved item. The following item, in form attached to these minutes under the number indicated, was approved unanimously after consideration of background material that had been made available to the Board and clarification of points of information about which members of the Board inquired:

Item No.

1

Letter to American Bank and Trust Company, Lansing, Michigan, approving the establishment of an in-town branch and commenting on the bank's capital position.

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Acquisition of Edge corporation shares (Items 2 and 3). There had been distributed a memorandum from the Legal Division dated July 18, 1966, concerning a letter of July 7 from Western Bancorporation, Los Angeles, California, in which the question was raised whether banks in a bank holding company system may purchase shares of an Edge corporation subsidiary of the holding company. Attached were a draft of letter to Western Bancorporation advising that the transaction would not be prohibited by Federal law and a draft of interpretation to this effect for publication in the Federal Register and the Federal Reserve Bulletin.

Mr. Shay observed that since the recent repeal of section 6 of the Bank Holding Company Act the basic limitations with respect to transactions between affiliates in a holding company group were to be found in section 23A of the Federal Reserve Act. This statute was inapplicable to transactions involving corporations organized under section 25(a) of the Federal Reserve Act (Edge corporations), and also was inapplicable to investments in securities of the kinds and amounts eligible for purchase by national banks under section 5136 of the Revised Statutes. Since section 5136, read in context with section 25(a) of the Federal Reserve Act, authorized national banks to purchase shares of Edge corporations, member State banks had the same privilege, subject to applicable State laws, by virtue of section 9, paragraph 20, of the Federal Reserve Act. Accordingly, Mr. Shay expressed the view that there was no provision of Federal law that would prohibit a transaction of the kind here under consideration.

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After clarification of certain points covered in Mr. Shay's presentation, transmittal of the letter and issuance of the interpretation were authorized unanimously, with the understanding that certain editorial changes would be made in the interpretation. Copies are attached as Items 2 and 3, respectively.

Request for unpublished information (Item No. 4). There had been distributed a memorandum from the Legal Division dated July 13, 1966, discussing and recommending compliance with a request from the law firm of Schacht, Kerr & Schacht, Rochester, Minnesota, for permission to examine and copy portions of certain documents furnished to the Board in connection with the application of Bancorporation of Minnesota, Inc., to become a bank holding company. (This application had been denied by Board order dated August 2, 1965.) Attached to the memorandum was a draft of letter to the law firm authorizing access to copies of the application and supplemental documents in the possession of the Federal Reserve Bank of Minneapolis.

Mr. O'Connell observed that since no hearing had been held on the application there was no transcript. With respect to the other documents referred to in the request, he noted that the application of Bancorporation had been submitted prior to October 30, 1965 (the effective date of an amendment to the Board Rules Regarding Information, Submittals, and Requests providing that, unless otherwise directed by the Board, all bank holding company applications received after that

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date would be available for public inspection). Therefore, these materials were not public documents. However, it seemed quite possible that the matter in connection with which the materials were being sought might result in litigation, and the documents requested would then be subject to subpoena in any event. In all the circumstances, he thought it desirable that access to them be allowed.

Transmittal of a letter granting permission for access to the documents requested was thereupon authorized; a copy of the letter is attached as Item No. 4.

Cease and desist bill. The Vice Chairman referred to a meeting he had attended yesterday at the Treasury with regard to S. 3158, the Financial Institutions Supervisory Act of 1966 (popularly called the "cease and desist" bill), the purpose of which was to strengthen enforcement remedies against violations of law or unsafe or unsound practices on the part of financial institutions. The meeting was called to consider a Committee Print dated July 14, 1966, which involved amendment of S. 3158 to change some of the more controversial provisions. Among other things, the removal and suspension authority would be limited to actions involving personal dishonesty. Also, the Comptroller of the Currency would have to receive approval of the Federal Reserve Board before acting against a national bank. However, the provisions granting authority to the Home Loan Bank Board and the Federal bank supervisory agencies to require financial institutions to cease and desist

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from violations of law or unsafe or unsound practices had been retained substantially as proposed in the original bill.

Governor Robertson said he had pointed out at the meeting that the original bill had been supported by the Board of Governors. He had also expressed the view that a removal and suspension authority limited to actions involving personal dishonesty would hardly be worth fighting for. However, he felt that cease and desist authority, even without a removal and suspension power, would be beneficial.

Governor Robertson recalled that the Comptroller of the Currency was opposed to the whole idea of providing removal and suspension authority on the ground that he was now able through nonstatutory means to effect the removal of bank officers and directors and that the necessity to follow statutory procedures might simply involve delay. He added that the Treasury was opposed to the provision of the Committee Print whereby the Comptroller of the Currency would have to receive approval of the Federal Reserve Board before acting against a national bank.

Governor Robertson said it was his view that the protection of the public weighed toward having any removal and suspension procedures spelled out in the statutes rather than to have such actions taken by a single public official on a nonstatutory basis.

After reviewing certain other amendments found in the Committee Print, the Vice Chairman said he understood that further consideration was being given to various aspects of the matter before the Treasury

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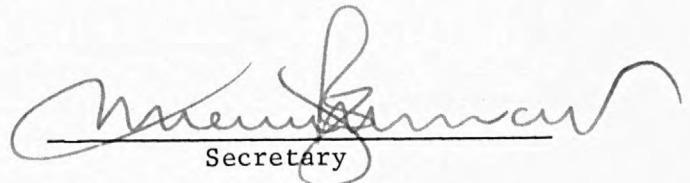
decided what position to take in a letter to the Senate Banking and Currency Committee concerning the Committee Print.

Secretary's Note: The Vice Chairman was subsequently furnished a copy of a letter dated July 21 from the Treasury to the Chief of Staff of the Senate Banking and Currency Committee. The letter expressed a preference for the provisions of the original bill so far as the removal and suspension authority was concerned. It expressed disagreement with the special treatment accorded to the Comptroller of the Currency, but indicated that otherwise the Committee Print would be acceptable to the Administration. It also stated that the letter reflected the views not only of the Treasury but also the Board of Governors, the Federal Deposit Insurance Corporation, and the Home Loan Bank Board.

The meeting then adjourned.

Secretary's Notes: Governor Shepardson today approved on behalf of the Board a request from Mary E. Yingling, Cafeteria Helper, Division of Administrative Services, for permission to work for a local store on a part-time basis.

Governor Shepardson also approved today on behalf of the Board a request from John C. Chisolm, Cafeteria Laborer, Division of Administrative Services, for permission to engage in part-time custodial work.


Secretary

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

Item No. 1
7/20/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 20, 1966



Board of Directors,
American Bank and Trust Company,
Lansing, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by American Bank and Trust Company, Lansing, Michigan, of a branch in the vicinity of the intersection of West Mount Hope Avenue and Boston Boulevard, Lansing, Michigan, provided the branch is established within one year from the date of this letter.

The Board is aware of the recent sale by your bank of capital debentures totaling \$1,500,000; however, capital continues to be less than satisfactory. In view of the strong growth trend of your bank, the Board urges that serious consideration be given to further increasing capital funds.

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
7/20/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 20, 1966

Mr. John L. Cecil, Executive Vice President
and Secretary,
Western Bancorporation,
600 South Spring Street,
Los Angeles, California. 90014

Dear Mr. Cecil:

This is in reply to your letter of July 7, 1966, to Mr. Solomon, Director of the Board's Division of Examinations, concerning whether it is permissible for commercial banking affiliates of Western Bancorporation to acquire and hold the shares of Western Bancorporation International, the bank holding company's Edge corporation subsidiary.

Enclosed is a copy of an interpretation of the Board concerning the matter that will be published in early issues of the Federal Reserve Bulletin and the Federal Register. You will note that the interpretation concerns only acquisitions of shares by State member banks. You may wish to consult the Comptroller of the Currency or the Federal Deposit Insurance Corporation, respectively, with respect to the affiliates of Western Bancorporation that are national banks or nonmember insured banks.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

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Item No. 3
7/20/66

ACQUISITION OF EDGE CORPORATION AFFILIATE BY STATE
MEMBER BANKS OF REGISTERED BANK HOLDING COMPANY

The Board has been asked whether it is permissible for the commercial banking affiliates of a bank holding company registered under the Bank Holding Company Act of 1956, as amended, to acquire and hold the shares of the holding company's Edge corporation subsidiary organized under section 25(a) of the Federal Reserve Act.

Section 9 of the Bank Holding Company Act amendments of 1966 (Public Law 89-485, approved July 1, 1966) repealed section 6 of the Bank Holding Company Act of 1956. That rendered obsolete the Board's interpretation of section 6 that was published in the March 1966 Federal Reserve Bulletin, page 339. Thus, so far as Federal banking law applicable to State member banks is concerned, the answer to the foregoing question depends on the provisions of section 23A of the Federal Reserve Act, as amended by the 1966 amendments to the Bank Holding Company Act. By its specific terms, the provisions of section 23A do not apply to an affiliate organized under section 25(a) of the Federal Reserve Act.

Accordingly, the Board concludes that, except for such restrictions as may exist under applicable State law, it would be legally permissible by virtue of paragraph 20 of section 9 of the Federal

Reserve Act for any or all of the State member banks that are affiliates of a registered bank holding company to acquire and hold shares of the Edge corporation subsidiary of the bank holding company within the amount limitation in the last sentence of paragraph 12 of section 25(a) of the Federal Reserve Act.

July 20, 1966.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4
7/20/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 20, 1966

Schacht, Kerr & Schacht,
Attorneys at Law,
Suite 300,
100 First Avenue Building,
Rochester, Minnesota. 55901

Attention Donald C. Steiner, Esq.

Gentlemen:

This acknowledges your letter of June 15, 1966, advising that you represent several stockholders of the Olmsted County Bank and Trust Company, Rochester, Minnesota, one of three banks involved in an application filed by Bancorporation of Minnesota, Inc., pursuant to section 3(a) of the Bank Holding Company Act of 1956, which was denied by the Board on August 2, 1965. You ask to be advised as to what part, if any, of the material furnished by Bancorporation incident to its proposal constitutes a public record that would be available for public examination. In addition to your reference to Bancorporation's application, you inquire as to your access to the Board's Order and Statement reflecting its denial action, and to any existing transcript of hearing on the application.

You are advised that section 262.2(f)(7) of the Board's Rules of Procedure as presently in force (12 CFR 262.2(f)(7)) provides that unless the Board shall otherwise direct, each holding company and merger application received subsequent to October 30, 1965, shall be made available for inspection by the public except for portions thereof as to which the Board determines that disclosure would not be in the public interest. As to any bank holding company application filed prior to October 30, 1965, except as otherwise determined by the Board, such are available for inspection by the public only in cases in which a public hearing or public oral presentation of views on the application was ordered by the Board. Since Bancorporation's application was filed some 18 months prior to October 30, 1965, and since no public hearing or public oral presentation on the application was ordered, the application is considered to be "unpublished information of the Board" and not available for

Schacht, Kerr & Schacht

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public inspection in the ordinary course of business. Since no public hearing or oral presentation was held on the application, no transcript of record exists.

Section 261.2(d) of the Board's Rules Regarding Information, Submittals, and Requests (12 CFR 261.2(d)) permits the Board to except from the disclosure prohibitions unpublished information of the Board where such disclosure is deemed to be in the public interest. Upon consideration of your request, including your stated representation of stockholders of the Olmsted County Bank and Trust Company, and pursuant to the above provision of the Board's Rules, the Board has granted your request for permission to examine the application of Bancorporation of Minnesota. This authorization contemplates also your access to certain information supplied by Bancorporation in the form of supplements to its original application. Certain of this information was responsive to requests by the Board for further information transmitted through the Federal Reserve Bank of Minneapolis. Since these requests make more meaningful the responses thereto, these letters will also be made available for your inspection.

A copy of this letter is being furnished the Federal Reserve Bank of Minneapolis. Vice President Roger K. Grobel and Chief Examiner L. G. Gable of the Reserve Bank are familiar with your request and with the documents that comprise Bancorporation's application and thus are included within this authorization. Upon request of either Mr. Grobel or Mr. Gable, arrangements will be made for your inspection of this material at the Minneapolis Reserve Bank and, if desired, to have copies thereof made.

Pursuant to your further inquiry, the material in question totals about 220 pages, the cost of reproduction of which by the Board would approximate \$20.00, or about 8 cents per page. The Minneapolis Reserve Bank may also have facilities and the opportunity to comply with any request for reproduction of documents. For your information, there is enclosed a copy of the Board's August 2, 1965 Order and Statement concerning its denial of Bancorporation's application.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure