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 Tuesday, August 9, 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. Brimmer

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Bakke, 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. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Partee, Associate Director, Division of Research and Statistics
Mr. Sammons, Associate Director, Division of International Finance
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Miss Wolcott, Technical Assistant, Office of the Secretary
Mr. Forrestal, Senior Attorney, Legal Division
Mr. Dahl, Chief, Special Studies and Operations Section, Division of International Finance

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.
Letter to G. W. Jones Exchange Bank, Marcellus, Michigan, interposing no objection to the bank's acting as testamentary trustee of two specific accounts now in probate.

Letter to the Bureau of the Budget reporting on a proposed Executive Order "prescribing the interest rate for deposits of savings of members of the uniformed services."

The proposed Executive Order (Item No. 2) would implement enrolled bill H.R. 14875, which would authorize servicemen on duty outside the United States to deposit their savings, up to $10,000, with a uniformed service at interest rates prescribed by the President. The Executive Order would prescribe a rate of 10 per cent per annum, compounded quarterly, effective September 1, 1966.

Meeting with academic consultants. Governor Mitchell reported that Professor Lee Bach was making arrangements for the next meeting of the Board's academic consultants to be held October 27-28, 1966. After discussion indicated that certain Board members might be out of town at that time, it was understood that Governor Mitchell would ascertain the feasibility of scheduling the meeting a week earlier.

Proposed revision of Regulation M (Item No. 3). There had been distributed a memorandum from the Legal Division dated July 29, 1966, relating to a proposed revision of Regulation M (Foreign Branches of National Banks) that would implement the amendment to section 25 of the Federal Reserve Act approved on July 1, 1966. The amendment, included
in Public Law 89-485, an Act to amend the Bank Holding Company Act of 1956, authorized member banks, with approval of the Board, to invest directly or indirectly in foreign banks and to make loans to such banks without regard to section 23A of the Federal Reserve Act, subject to such regulations and limitations as the Board might prescribe. Attached to the memorandum was a draft notice of proposed rule making for publication in the Federal Register, setting forth such regulatory provisions for inclusion in Regulation M (which would be entitled "Foreign Activities of National Banks").

At the meeting on August 3, Governor Robertson had suggested that it might be preferable to require specific consent for each proposed investment under the new statutory provision rather than to incorporate the general consent feature of Regulation K (Corporations Engaged in Foreign Banking and Financing under the Federal Reserve Act) applicable to foreign investments of Edge and agreement corporations.

There had now been distributed a memorandum from the Legal Division dated August 4 addressed to the foregoing question. Attached was an alternative section dealing with investments, for inclusion in the draft notice of proposed rule making, that would eliminate the general consent provision.

Mr. Shay observed that the Legal Division favored inclusion of the general consent provision, which would harmonize the Regulation M provisions with the procedures established under Regulation K. In
addition, most of the Reserve Banks had indicated support for the general consent feature. On the other hand, if there was a substantial question within the Board concerning the desirability of providing a general consent, he would suggest that it be omitted from the version published for comment. After receipt of views from interested persons and further consideration, the proposed regulation could be revised before final adoption, if the Board so concluded, to add this feature. Further publication for comments would not be necessary since this would represent a liberalization of requirements.

In the ensuing discussion a number of questions were explored, with principal focus on the desirability of having the proposed regulation consistent with the provisions of Regulation K, the possible effect of investments under general consent upon the balance of payments, and the relative merits of general, as opposed to specific, consents. While some Board members expressed themselves as being inclined to favor a general consent provision, the prevailing sentiment was to omit this feature from the published draft and reconsider the question at a later date when comments had been received and the results of the current Board study of foreign operations of U.S. banks also should be available.

Accordingly, it was agreed that the draft revision of Regulation M should be published in the Federal Register for comment in the form attached to these minutes as Item No. 3. Copies of the notice, with invitation for comment, were also sent to the Federal Reserve Banks,
the Federal Advisory Council, the Federal Deposit Insurance Corporation, the Comptroller of the Currency, the Export-Import Bank, and the Departments of State, Treasury, and Commerce.

At this point all members of the staff except Messrs. Sherman, Kenyon, Bakke, Young, Holland, Molony, Hackley, Brill, and Partee, and Miss Wolcott withdrew from the meeting.

Bank lending policies (Item No. 4). Pursuant to an understanding reached at the meeting on August 8, 1966, Governor Brimmer had caused to be distributed a memorandum of the same date attaching a proposed request to the Reserve Banks for information concerning current lending policies of key banks, in the light of current money market conditions and the narrowing of CD offering rates against Regulation Q ceilings, such information to be furnished prior to the meeting of the Federal Open Market Committee on August 23.

Following discussion, during which certain changes in wording were suggested by members of the Board, approval was given to a telegram in the form attached as Item No. 4.

Reserve requirements. Governor Robertson distributed a memorandum of today's date in which he proposed an additional one per cent increase (from 5 per cent to 6 per cent) in reserve requirements against time deposits (other than savings deposits) similar to the increase approved by the Board effective July 1966. As stated in the memorandum, the purpose of the proposed action would be further to discourage
reliance on certificates of deposit as a base for expansion of bank credit in the face of continuing strong loan demands. It was recommended that if the Board adopted the proposal a public announcement be made within the next few days, with effective date or dates near the end of this month.

The memorandum envisaged that banks might attempt to increase the issuance of certificates of deposit this month in anticipation of enlarged September maturities and tax-period credit demands. As they did so, and also endeavored to roll over the relatively heavy progression of current maturities week by week, many large banks might be inclined to raise offering rates generally to the ceiling on minimum maturities, and perhaps on denominations under as well as over $100,000. In this environment, any additional increase in the cost of replacing CDs should reinforce the inducement to large banks to restrict customer loan accommodation as an alternative policy choice and to husband the liquidity of their asset portfolios against potential net CD runoffs. In addition, increasing the reserve requirement against time deposits to the maximum would give further public indication that the Board meant to moderate both inflationary credit expansion and overly aggressive interest rate competition for savings. It would exhaust the Board's present authority to increase requirements on these deposits and thereby emphasize the need for the additional discretionary power recently requested of the Congress.
In commenting on his proposal, Governor Robertson indicated that he would like to see the Board adopt a stance that would indicate a purposeful intent, short of drastic action, to curb inflationary pressures and undue expansion of bank credit. In addition, he felt that it would be desirable to exhaust the Board's existing authority with respect to reserve requirements against time deposits in order to emphasize the need for legislation providing additional discretionary power. While it was customary to maintain an even-keel policy during periods of Treasury financing, he did not believe that the proposed action, given the suggested timing, would be inappropriate from that standpoint.

Governor Mitchell recalled that in the discussion leading up to the Board's previous action to increase reserve requirements, the possibility of a further increase in such requirements at a later date had been mentioned by one of the members of the Board and that the idea was not rejected. He then called for staff comment concerning whether the July action appeared at this juncture to have had principally a differential impact on the large banks or also some general monetary effect.

In reply, Mr. Holland referred to several unusual factors, including the effects of the airline strike, that tended to distort the reserve picture and make an assessment particularly difficult, following which Governor Robertson observed that if the proposed action were taken the impact could be moderated as necessary through open market
operations. However, the purpose of the action would be defeated if the reserve effect was completely offset.

There followed a lengthy exchange of tentative views on various aspects of the proposal during which a number of questions were raised for consideration.

One of the factors to which particular attention was given was the possible market reaction to the announcement of an additional increase in reserve requirements. It was noted, among other things, that the proposed action would be regarded as a further credit-tightening move, whereas the intent of the previous reserve requirement action had been somewhat obscured by considerations relating to the midyear situation of savings and loan associations. Comments were made on the question of the extent to which further pressure could be placed on the money market banks without risking the possibility of disorderly conditions.

Consideration also was given to whether an action of this kind could be expected to exert a differential impact and induce a moderation of the pace of business loan expansion or whether the impact would not also be felt by areas of credit already most affected by monetary policy, such as real estate loans.

Reference likewise was made to questions concerning coordination of the several instruments of monetary policy, including the discount rate. Various advantages and disadvantages of an increase in the discount rate were mentioned, and comments were made on whether the proposed
reserve requirement action would have the effect of forcing the issue
of a discount rate change, especially in light of additional pressure
that might be exerted in the area of discount window administration.
Question was raised, along these lines, as to whether consideration
should be given to postponing the reserve requirement action until after
the Open Market Committee meeting on August 23 in order to permit dis-
cussion of the coordinated use of the various policy instruments, but
reasons also were given why it was felt that the reserve requirement
Proposal should be acted upon by the Board promptly.

Other matters mentioned included the likelihood of announcement
of an increase in the commercial bank prime loan rate within the near
future and the prospect of greater pressure from banks for adjustment
of the current Regulation Q ceilings.

During the foregoing discussion, Governor Robertson reported
that he had discussed his intention to propose the increase in reserve
requirements with Secretary of the Treasury Fowler and Under Secretaries
Deming and Barr. They had not expressed opposition, although Mr. Deming
had inquired whether it might not be appropriate to consider the use of
selective credit controls. Governor Robertson indicated that his reply
had been to the effect that in his opinion the point had not yet been
reached where a shift from general credit restraint to selective controls
would be justified.

Governor Mitchell then commented that prior to further discus-
sion of Governor Robertson's proposal he would like to have the benefit
of staff analysis of the impact of the July increase in reserve requirements and also the staff's judgment concerning an appropriate course for open market policy, in light of aggregate and marginal policy goals, if the proposed further increase in reserve requirements were adopted.

It was thereupon agreed that Governor Robertson's proposal for an increase in reserve requirements would be considered again at the meeting on August 11, and that prior thereto the staff would prepare memoranda providing information and analysis along the lines suggested.

Bank holding company applications. Mr. Sherman noted that in connection with bank merger applications requiring Board approval, the established practice was to forward copies to the Department of Justice when requesting reports on competitive factors. With respect to applications under the Bank Holding Company Act, however, the procedure followed had been for the Board merely to notify the Department of receipt of the application, allowing its representatives to inspect the application if they wished to do so.

Mr. O'Connell had now received an oral request from that Department, asking that in the future copies of holding company applications be forwarded as a matter of course upon their receipt. Mr. O'Connell proposed that this procedure be followed.

Following discussion, unanimous approval was given to the proposal to send copies of future applications under the Bank Holding Company Act to the Department of Justice as received.
All members of the staff except Mr. Sherman then withdrew from the meeting.

Appointment of Mr. Staiger. David S. Staiger, currently Senior Economist in the Division of Data Processing, was appointed Assistant Director of the Division of Data Processing, effective August 15, 1966, with annual salary at the rate of $19,500.

The meeting then adjourned.

Secretary's Notes: A letter was sent today to International Bank of Commerce, Seattle, Washington, acknowledging receipt of notice of its intent to establish an additional branch in Hong Kong, to be located in the Kwan Tong district of Kowloon. The letter noted that establishment of the branch would not require an additional capital expenditure and that the expenses involved in opening the branch would be nominal.

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

Appointment

Geraldine C. Ledson as Statistical Clerk, Division of Research and Statistics, with basic annual salary at the rate of $5,096, effective the date of entrance upon duty.

Salary increases, effective August 14, 1966

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<th>Name and title</th>
<th>Division</th>
<th>Basic annual salary</th>
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<td>Research and Statistics</td>
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<td>Ramona K. Harlow-Rao, Statistical Clerk</td>
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<td>Paul R. Schweitzer, Economist</td>
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<td>Frances D. Skehan, Statistical Assistant</td>
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Salary increases, effective August 14, 1966 (continued)

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<tr>
<td>John A. Treimann, Federal Reserve Examiner</td>
<td>Examinations</td>
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<td>J. Frank Bell, Supervisor, Motor Transport Unit</td>
<td>Administrative Services</td>
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<td>Edward J. Finck, Purchasing Assistant</td>
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<td>Margaret E. Jenkins, Baker</td>
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<tr>
<td>Napoleon H. Marrow, Jr., Messenger</td>
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<td>Opal I. Odell, Charwoman</td>
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Secretary
Board of Directors,
G. W. Jones Exchange Bank,
Marcellus, Michigan.

Gentlemen:

This refers to your request, under applicable provisions of your condition of membership, for permission to act as testamentary trustee.

In passing on an application by a State member bank to exercise fiduciary powers, the Board gives special consideration to a number of factors having a bearing on the proper exercise of the fiduciary powers involved. These include the general condition of the bank, the adequacy of its capital funds, the general character and ability of the management of the bank, and the qualifications and experience of the proposed executive officer of the trust department.

The Board has considered the condition of your bank as reflected in reports of examination made by examiners for the Federal Reserve Bank of Chicago. It is noted that there has been only very nominal dollar progress in assets criticized at the last examination, as of December 27, 1965, and the condition of your bank continues to be regarded by the Board as a serious problem situation. The area of principal concern is the need for strengthening in the bank's management, specifically with regard to basic loan account policies and servicing and the maintenance of reasonably adequate records thereof. It is recognized that current efforts by the bank to obtain outside appraisals of other real estate and real estate underlying criticized loans would be helpful in this connection.

Nevertheless, it is believed that substantial further improvement in the general condition of the bank is necessary to provide for normal banking risks and to give adequate support to broadened functions which would normally be involved in the acceptance of a substantial volume of trusteeships.
Board of Directors,  
G. W. Jones Exchange Bank

However, in the circumstances, the Board of Governors of the Federal Reserve System will interpose no objection to acceptance by the G. W. Jones Exchange Bank of the two specific accounts, now in probate, for which the bank is named as testamentary trustee, as noted in your application, with the understanding that no other testamentary trusteeships will be accepted without first obtaining permission from the Board.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.
August 9, 1966

The Honorable Charles L. Schultze,
Director,
Bureau of the Budget,
Washington, D. C. 20503

Dear Mr. Schultze:

This is in response to the Budget Bureau's letter of August 5, 1966, to Chairman Martin, requesting the views of the Board on a proposed Executive Order entitled "Prescribing the Interest Rate for Deposits of Savings of Members of the Uniformed Services."

The Board has no objection to the issuance of the proposed Executive Order by the President.

Sincerely,

(Signed) J. L. Robertson

J. L. Robertson.
The Board of Governors of the Federal Reserve System is considering the adoption of a revision of Part 213 (Regulation M) -- Foreign Branches of National Banks -- pursuant to section 25 of the Federal Reserve Act (12 U.S.C. 601-604a) and particularly the amendment to that section by section 12(b) of Public Law 89-485, approved July 1, 1966 (80 Stat. 236), which relates to the acquisition and holding of shares of, and loans or extensions of credit to, foreign banks by national banks.

The proposed revision of Part 213 would add thereto new provisions to implement section 12(b) of Public Law 89-485 which added to section 25 of the Federal Reserve Act paragraph "Third" authorizing any national bank having a capital and surplus of $1 million or more, with the permission of the Board, and upon such conditions and under such regulations as it may prescribe, (1) to acquire and hold stock or other evidences of ownership in any foreign bank that does no business in the United States (except incidental to its foreign activities), and (2) to make loans or extensions of credit to such a bank, without regard to section 23A of the Federal Reserve Act (12 U.S.C. 371c), but within limits prescribed by the Board.
The proposed revision makes no substantive changes in the present sections of Part 213 dealing with foreign branches of national banks. It does, however, amend the title of Part 213 to read "Foreign Activities of National Banks".

Like present Part 213, the provisions proposed to be added thereto apply to State member banks as well as to national banks.

The stock acquisitions in and loans or extensions of credit to foreign banks made pursuant to the revised regulation will be considered foreign investments for purposes of the guidelines issued under the Voluntary Foreign Credit Restraint effort presently in effect.

The proposed revision of Part 213 is as follows:

Sec. 213.1 Authority and Scope
Sec. 213.2 Definitions
Sec. 213.3 Foreign Branches
Sec. 213.4 Acquisition and Holding of Stock in Foreign Banks
Sec. 213.5 Loans or Extensions of Credit to Foreign Banks
Sec. 213.6 Conditions

PART 213 - FOREIGN ACTIVITIES OF NATIONAL BANKS*

213.1 Authority and scope.

Pursuant to authority conferred upon it by section 25 of the Federal Reserve Act (the "Act"), as amended (12 U.S.C. 601-604a),

*The text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 213; cited as 12 CFR Part 213. The subject matter of this part is in addition to that contained in 12 CFR Part 211 (Reg. K).

1/ The provisions of this part apply to State member banks of the Federal Reserve System as well as to national banks.

2/ Pertinent portions of this section are printed in the Appendix.
the Board of Governors of the Federal Reserve System (the "Board")
prescribes the following regulations relating to (a) foreign branches
of national banks, (b) the acquisition and holding of stock in foreign
banks by national banks, and (c) loans or extensions of credit to or
for the account of such foreign banks by national banks.
§ 213.2 Definitions.

For the purposes of this part -

(a) "Foreign branch" means any branch established by a national
bank pursuant to section 25 of the Act.

(b) "Foreign country" or "country" means any foreign nation
or colony, dependency, or possession thereof, any overseas territory,
dependency, or insular possession of the United States, or the Common-
wealth of Puerto Rico.

(c) "Foreign bank" means a bank organized under the law of
a foreign country and not engaged, directly or indirectly, in any
activity in the United States except as, in the judgment of the Board
of Governors of the Federal Reserve System, shall be incidental to the
international or foreign business of such foreign bank.

§ 213.3 Foreign branches.

(a) Establishing foreign branches. A foreign branch may
be established with prior Board permission. If a national bank has
established a branch in a foreign country, it may, unless otherwise
advised by the Board, establish other branches in that country after
thirty days' notice to the Board with respect to each such branch.
(b) Further powers of foreign branches. In addition to its other powers, a foreign branch may, subject to §§ 213.3(c) and 213.6 and so far as usual in connection with the transaction of the business of banking in the places where it shall transact business:

(1) Guarantee customers' debts or otherwise agree for their benefit to make payments on the occurrence of readily ascertainable events, if the guarantee or agreement specifies its maximum monetary liability thereunder; but, except to the extent secured with respect thereto, no national bank may have such liabilities outstanding (i) in an aggregate amount exceeding 50 per cent of its capital and surplus or (ii) for any customer in excess of the amount by which 10 per cent of its capital and surplus exceeds the aggregate of such customer's "obligations" to it which are subject to any limitation under section 5200 of the Revised Statutes (12 U.S.C. 84);

(2) Accept drafts or bills of exchange drawn upon it, which shall be treated as "commercial drafts or bills" for the purposes of paragraphs (c), (d), and (e) of § 203.1 of Part 203 (Reg. C);

(3) Acquire and hold securities (including certificates or other evidences of ownership or participation) of the central bank, clearing houses, governmental entities, and development banks of the country in which it is located, unless after such an acquisition the

3/ Including, but not limited to, such types of events as nonpayment of taxes, rentals, customs duties, or costs of transport and loss or nonconformance of shipping documents.
aggregate amount invested by the branch in such securities (exclusive of securities held as required by the law of that country or as authorized under section 5136 of the Revised Statutes (12 U.S.C. 24)) would exceed one per cent of its total deposits on the preceding yearend call report date (or on the date of such acquisition in the case of a newly-established branch which has not so reported);

(4) Underwrite, distribute, buy, and sell obligations of the national government of the country in which it is located; but no bank may hold, or be under commitment with respect to, obligations of such a government as a result of underwriting, dealing in, or purchasing for its own account in an aggregate amount exceeding 10 per cent of its capital and surplus;

(5) Take liens or other encumbrances on foreign real estate in connection with its extensions of credit, whether or not of first priority and whether or not such real estate is improved or has been appraised;

(6) Extend credit to an executive officer of the branch in an amount not to exceed $20,000 or its equivalent in order to finance the acquisition or construction of living quarters to be used as his residence abroad, provided each such credit extension is promptly reported to its home office.

\[4/\] Including obligations issued by any agency or instrumentality, and supported by the full faith and credit, of such government.
(7) Pay to any officer or employee of the branch a greater rate of interest on deposits than that paid to other depositors on similar deposits with the branch.

(c) Limitations. Nothing in § 213.3(b) shall authorize a foreign branch to engage in the general business of producing, distributing, buying, or selling goods, wares, or merchandise or, except as permitted by § 213.3(b)(4), to engage or participate, directly or indirectly, in the business of underwriting, selling, or distributing securities.

(d) Suspending operations during disturbed conditions. The officer in charge of a foreign branch may suspend its operations during disturbed conditions which, in his judgment, make conduct of such operations impracticable; but every effort shall be made before and during such suspension to serve its depositors and customers. Full information concerning any such suspension shall be promptly reported to the branch's home office, which shall immediately send a copy thereof to the Board through the Federal Reserve Bank of its district.

§ 213.4 Acquisition and holding of stock in foreign banks.

(a) General. With the prior consent of the Board, and subject to the provisions of section 25 of the Act and this part, a national bank may acquire (other than through a broker, dealer, or stock exchange firm or representative) and hold the stock or other evidences of ownership in one or more foreign banks: Provided, That the aggregate amount invested in the stock or other evidences of ownership in all
foreign banks, taken together with investments by the national bank in the shares of corporations operating under section 25 of the Act or organized under section 25(a) of the Act, shall not exceed 10 per cent of the national bank's capital and surplus. Nothing contained in this part shall prevent the acquisition and holding of stock or other evidences of ownership in a foreign bank where such acquisition is necessary to prevent a loss upon a debt previously contracted in good faith; but such stock or other evidences of ownership shall be disposed of within six months from the date of acquisition unless such time is extended by the Board.

(b) Limitations. (1) Stock or other evidences of ownership in a foreign bank shall be disposed of as promptly as practicable if (i) such bank should engage in the business of underwriting, selling, or distributing securities in the United States or (ii) the national bank is advised by the Board that its holding is inappropriate under section 25 of the Act or this part. (2) In computing the amount which may be invested in the stock or other evidences of ownership in foreign banks under this section, there shall be included any indirect acquisitions or holdings in such foreign banks whether through a corporation operating under section 25 of the Act or organized under section 25(a) of the Act or otherwise. Unless otherwise specified, "stock", "shares", and "evidences of ownership" in this section include any rights to acquire stock, shares, or evidences of ownership.
(c) **Required information.** The following information shall be submitted by a national bank applying for the consent of the Board to acquire and hold stock or other evidences of ownership in a foreign bank pursuant to this section (unless previously furnished): (1) the cost, number, and class of shares to be acquired, and the proposed carrying value of such shares on the books of the national bank; (2) recent balance sheet and income statement of the foreign bank; (3) brief description of the foreign bank's business (including full information concerning any business transacted in the United States); (4) lists of directors and principal officers (with address and principal business affiliation of each) and of all shareholders known to the issuing bank holding 10 per cent or more of any class of the foreign bank's stock or other evidences of ownership, and the amount held by each; and (5) information concerning the rights and privileges of the various classes of shares outstanding.

(d) **Reports.** A national bank shall inform the Board through the Federal Reserve Bank of its district of the cost and number of shares of a foreign bank acquired pursuant to this section.

§ 213.5 Loans or extensions of credit to foreign banks.

(a) A national bank which holds directly or indirectly stock or other evidences of ownership in a foreign bank may make loans or extensions of credit to or for the account of such foreign bank without regard to section 23A of the Act: Provided, That the aggregate amount of loans or extensions of credit to any such foreign
bank shall not exceed 10 per cent of the capital and surplus of the national bank or, in the case of all such foreign banks, the aggregate amount of such loans or extensions of credit shall not exceed 20 per cent of the capital and surplus of the national bank.

(b) For the purposes of this section, (1) the term "extensions of credit" shall include (i) any acquisition of stock or other evidences of ownership; (ii) any purchase of securities, other assets or obligations under repurchase agreement; (iii) the discount of promissory notes, bills of exchange, conditional sales contracts, or similar paper with recourse; and (2) non-interest bearing deposits to the credit of a national bank shall not be deemed to be a loan or extension of credit to the bank of deposit, nor shall the giving of immediate credit to a bank upon uncollected items received in the ordinary course of business be deemed to be a loan or extension of credit to the depositing bank.

§ 213.6 Conditions.

(a) The continued or prospective exercise of any power under this part shall be subject to any notice interpreting or applying it that a national bank may receive from the Board, and such bank shall immediately comply therewith.

(b) The Board may from time to time require a national bank to submit information regarding compliance with this part.
This Notice is published pursuant to section 4 of the Administrative Procedure Act and the Rules of Procedure of the Board of Governors of the Federal Reserve System (12 CFR 262.1).

To aid in the consideration of this matter, interested persons may submit any relevant data, views, or arguments. Although such material may be sent directly to the Board, it is preferable that it be sent to the Federal Reserve Bank of the district which will forward it to the Board to be considered. All such material should be submitted in writing to be received not later than the 20th day of September, 1966.

Dated at Washington, D. C., this 9th day of August, 1966.

By order of the Board of Governors.

(Signed) Merritt Sherman

Merritt Sherman, Secretary.
August 9, 1966.

Residents, all Federal Reserve Banks.

Members of the Board have expressed an interest in the extent of recent changes in the lending policies of larger banks, in the light of current money market conditions and the narrowing of CD offering rates against Regulation Q ceilings.

Accordingly, the Board would appreciate having the benefit of such information as you and your staff might be able to assemble on the basis of informal contacts among your leading banks between now and the next meeting of the Federal Open Market Committee pertaining to the following questions:

1. What kinds of changes, if any, have there been in bank lending and portfolio policies since mid-year, with respect to:
   a) business loans?
   b) mortgage loans?
   c) instalment loans?
   d) U.S. Government security holdings?
   e) other investments?

2. In cases where such policy changes have been made, what reasons seemed to give rise to the changes?
3. What is present banking thinking regarding fall loan demands and how banks may raise the funds to meet them?

It would be appreciated if the information gathered in response to this request could be sent to reach the Board before the Open Market Committee meeting, August 23. It would also seem desirable to furnish copies of your summary to the other Reserve Bank Presidents so that all may have the benefit of the information assembled.

(Signed) Merritt Sherman

SHERMAN