

Minutes for August 15, 1966

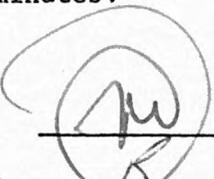
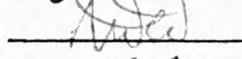
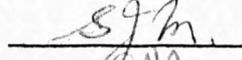
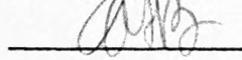
To: Members of the Board

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 Monday, August 15, 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. Holland, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Brill, Director, Division of Research and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. O'Connell, Assistant General Counsel
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Smith, Assistant Director, Division of Examinations
Messrs. Forrestal and Via, Senior Attorneys, Legal Division
Mr. Dahl, Chief, Special Studies and Operations Section, Division of International Finance
Messrs. Egertson, Supervisory Review Examiner, and Poundstone, Review Examiner, Division of Examinations

Approved letters. The following letters, copies of which are attached under the respective item numbers indicated, were approved unanimously following consideration of background information that had been made available to the members of the Board and explanatory comments by the staff:

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	<u>Item No.</u>
Letter to First Chicago International Finance Corporation, Chicago, Illinois, granting consent for an investment in BOECC (Holdings) Ltd., London, England.	1
Letter to the Chairman of the House Committee on Banking and Currency reporting favorably on H. R. 16503, a bill to amend the Bank Holding Company Act to repeal certain exemptions and to extend its coverage to one-bank holding companies.	2
Letter to the Federal Reserve Bank of Atlanta regarding administration of the discount window.	3

Direct verification (Items 4 and 5). At the meeting on August 12, 1966, the Board considered a draft of letter to the Federal Reserve Banks regarding a proposal for direct verification of a percentage of assets and liabilities, under stated circumstances, during examinations of State member banks. Pursuant to comments made during that discussion, the staff was requested to prepare an appropriate revision for the Board's consideration at a subsequent meeting.

There had now been distributed a revised draft of letter in which the Reserve Banks would be advised that: (1) direct verification on a sample basis should be undertaken at each examination in instances where a State member bank was found not to have reasonably adequate internal controls or audit procedures; (2) State supervisory authorities should be informed of these plans, with a view to securing their cooperation and assistance; (3) efforts to encourage State member banks to institute

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their own programs of direct verification should be continued and intensified; and (4) sight posting of incoming items from cash letters and local clearings should be made a routine part of each examination, unless the internal controls and audit coverage of the bank were such as to make the practice unnecessary.

Mr. Solomon commented that it was contemplated that the draft letter, in such form as the Board might ultimately approve, would be transmitted to the Presidents of all Reserve Banks for their information, and that the Chairman of the Conference of Presidents would be requested, in a companion letter, to schedule the subject for consideration at the September 12 meeting of the Conference, following which the Board would discuss the subject with the Presidents. He added that although at the Board discussion of the direct verification proposal on August 12 it had been suggested that the National Association of Supervisors of State Banks be informed of the contemplated examining procedure and the views of State supervisors invited, action along such lines would appear to be premature at this time. Notification might better be deferred until the matter had been discussed with the Presidents.

Governor Brimmer noted that the revised draft letter took the position that direct verification should be a mandatory part of examinations where State member banks' internal controls or audit procedures were not satisfactory. Previously the proposal had been cast in terms of offering this service at a member bank's option. In light of this,

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he thought perhaps the draft letter should include reference to the considerations that had led to the change in the Board's position.

Discussion of this point developed an explanation that the Presidents had been kept generally aware of developments since the direct verification procedure was first proposed. Additionally, they would receive, as attachments to the draft letter, copies of a letter regarding the experience of the Dallas Bank in furthering the direct verification program and of the Comptroller of the Currency's recent instructions to all regional administrators of national banks. Therefore, it would seem that the Presidents would be adequately prepared for discussion with the Board following the September 12 meeting of the Presidents' Conference.

Further discussion developed certain suggestions for editorial changes in the revised draft letter, which was thereupon approved unanimously in a form incorporating those suggestions, with the understanding that a letter would also be sent to the Chairman of the Conference of Presidents requesting consideration of the subject at the September 12 meeting of the Conference. Copies of the letter to the Chairman of the Presidents' Conference and of the draft letter, in the form approved, are attached as Items 4 and 5, respectively.

Application of Central State Bank (Items 6 and 7). There had been distributed drafts of an order and statement reflecting the Board's approval on August 8, 1966, of the application of Central State Bank, Elkader, Iowa, for permission to acquire the assets and assume the liabilities of Volga State Bank, Volga, Iowa.

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Following adoption of an editorial change in the statement, issuance of the order and statement was authorized. Copies of the documents, as issued, are attached as Items 6 and 7.

Request for access to FOMC records. Reference was made to a letter dated August 12, 1966, from Chairman Patman of the House Committee on Banking and Currency requesting that that Committee and its staff be given access to the minutes and other records of the Federal Open Market Committee. Attached were copies of an exchange of correspondence between Chairman Patman and Chairman Moss of the Subcommittee on Government Information and Foreign Operations (House Committee on Government Operations), regarding the question of the applicability of the disclosure provisions of P. L. 89-487 (the so-called "Freedom of Information" law) to Open Market Committee records. In his August 12 letter to the Board, Chairman Patman stated that "While I know that the law does not become effective until July 4, 1967, the intent of Congress to remove the present shrouds of secrecy from the operations of the Federal Open Market Committee is clear. Therefore, I hope that you will immediately make available . . . the minutes and other records of the . . . Committee."

It was understood, after a preliminary discussion, that a draft of reply to Chairman Patman's letter would be prepared on the basis of suggestions made by members of the Board, for consideration at a subsequent meeting of the Board.

The meeting then adjourned.

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Secretary's Notes: There had been received at the Board's offices an agreement executed under date of August 5, 1966, by First Foreign Investment Corporation, Miami, Florida, in accordance with the requirements of section 25 of the Federal Reserve Act. Accordingly, pursuant to the procedure contemplated by Board action on July 19, 1966, there was sent today to The First National Bank of Miami, Miami, Florida, a letter (copy attached as Item No. 8) granting permission to that bank to invest in stock of First Foreign Investment Corporation and granting permission to the latter corporation to invest in stock of Miami Holdings Limited (title changed from First National Holdings Limited), a Bahamian corporation.

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

Salary increases

Gena Gander, Employment Technician, Division of Personnel Administration, from \$7,942 to \$8,479 per annum, with a change in title to Personnel Technician, effective August 15, 1966.

Sudelle Rice, Employee Development Technician, Division of Personnel Administration, from \$7,729 to \$8,218 per annum, with a change in title to Personnel Technician, effective August 15, 1966.

Transfers

Ruth H. Goodyear, from the position of Secretary to the position of Personnel Assistant in the Division of Personnel Administration, with no change in basic annual salary at the rate of \$8,368, effective August 15, 1966.

Glenn L. Hogle, from the position of Personnel Technician to the position of Personnel Specialist in the Division of Personnel Administration, with an increase in basic annual salary from \$8,218 to \$9,221, effective August 15, 1966.

Charles W. Wood, from the position of Personnel Assistant to the position of Personnel Specialist in the Division of Personnel Administration, with an increase in basic annual salary from \$11,685 to \$12,873, effective August 15, 1966.

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Title changes

Jeanette E. Devlin, Personnel Records Technician, Division of Personnel Administration, title changed to Personnel Assistant, with no change in basic annual salary at the rate of \$7,253, effective August 15, 1966.

Joseph H. Hoyle, Employee Relations Technician, Division of Personnel Administration, title changed to Personnel Assistant, with no change in basic annual salary at the rate of \$8,948, effective August 15, 1966.

Margaret H. Wolverton, Personnel Assistant, Division of Personnel Administration, title changed to Personnel Specialist, with no change in basic annual salary at the rate of \$10,481, effective August 15, 1966.


Secretary

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

Item No. 1
8/15/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 15, 1966.

First Chicago International
Finance Corporation,
38 South Dearborn Street,
Chicago, Illinois. 60690

Gentlemen:

As requested in your letter of July 22, 1966, the Board of Governors grants consent for your Corporation ("FCIFC"), to purchase and hold 22,058 common shares, 13,127 preferred shares, and to exercise convertibility rights to acquire 8,935 additional common shares to which you may become entitled as holder of convertible loan stock of BOECC (Holdings) Ltd., London, England, at a total cost of approximately \$222,000.

The Board also approves the acquisition of shares of BOECC, within the terms of the above consent, in excess of 10 per cent of FCIFC's capital and surplus.

Please advise the Board of Governors as provided in Section 211.8(d) of Regulation K of any share acquisitions made under the above consent.

The foregoing consent is given with the understanding that the investment now being approved, combined with other foreign loans and investments of your Corporation, will not cause the total of such loans and investments to exceed the guidelines established under the voluntary foreign credit restraint effort now in effect and that due consideration is being given to the priorities contained therein; especially as stated in paragraph 3 of Guideline (4), it is expected that the outstanding amount of nonexport credits to developed countries in Continental Western Europe would not be increased during 1966 but rather would be reduced to the extent needed to meet bona fide requests for priority credits within the overall ceiling.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 2
8/15/66

OFFICE OF THE VICE CHAIRMAN

August 15, 1966



The Honorable Wright Patman,
Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington, D. C. 20515

Dear Mr. Chairman:

This is in reply to your letter of August 1, 1966, in which you asked for a report on H.R. 16503, a bill to amend the Bank Holding Company Act of 1956 to repeal the exemption for labor, agricultural, and horticultural organizations and to extend coverage under the Act to one-bank holding companies.

As you will recall, the Board of Governors has repeatedly recommended legislation incorporating both of these changes, and the House adopted these recommendations in passing H.R. 7371 last year but the Senate this year rejected them. Presumably, this means that the 89th Congress will not act on the two changes embodied in H.R. 16503. Nevertheless, the Board continues to believe that these recommendations are sound in principle, and we are hopeful that in time they will be enacted. Accordingly, the Board supports H.R. 16503.

Sincerely,

(Signed) J. L. Robertson

J. L. Robertson

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 3
8/15/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 15, 1966



Mr. Harold T. Patterson, President,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia 30303.

Dear Mr. Patterson:

The Board has just received an excerpt from the report of the recently concluded examination of the Federal Reserve Bank of Atlanta relevant to the administration of the discount window. From this it appears that the pattern of borrowing in the Atlanta District may not be consistent with Regulation A, and the present stance of monetary policy. The examination report notes that the documentation in the files of the Discount Department is insufficient and that borrowing banks may not have been communicated with in a timely fashion.

The Board has your letter of August 9, 1966, and understands that the entire matter was to be reviewed by the Executive Committee of your Board. It would be appreciated, therefore, if you would inform the Board as promptly as possible regarding the Executive Committee's discussion of the matters referred to with particular reference to the conclusions reached and actions planned or taken.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 4
8/15/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 17, 1966

Mr. Edward A. Wayne, Chairman,
Conference of Presidents,
Federal Reserve Bank of Richmond,
Richmond, Virginia. 23213

Dear Mr. Wayne:

The Board would appreciate your having placed on the agenda for consideration at the forthcoming meeting of the Conference of Presidents the enclosed draft of letter to all Federal Reserve Banks regarding the subject of direct verification of assets and liabilities in connection with examinations of State member banks.

You will recall that in the Board's letter of June 11, 1965, (S-1960, F.R.L.S. 3595) the Reserve Banks were requested to encourage the use of direct verification programs. In that connection there is enclosed, in addition to the proposed letter to be sent by the Board to all Reserve Banks, a copy of a letter from President Irons of the Federal Reserve Bank of Dallas dated July 14, 1966, regarding the experience of that Bank in furthering the direct verification program. Also enclosed for your convenient reference is a copy of a memorandum of instructions issued under date of July 21, 1966, by the Comptroller of the Currency to all regional administrators of national banks.

In addition to asking the Conference of Presidents to review this letter at its meeting on September 12, the Board would like to discuss with the Conference this subject at an appropriate time, probably during the afternoon of September 13.

For your information, the Board also has in mind addressing an appropriate letter to the National Association of Supervisors of State Banks at the time that its letter to all Reserve Banks is distributed for inclusion in the loose-leaf service, the substance of that communication being to solicit the assistance of the Supervisors in the program of direct verification.

Mr. Edward A. Wayne

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Because of the length of time between now and the date for the meeting of the Conference of Presidents, and also because of the length of the enclosures, a copy of this letter with attachments is being sent direct to each Reserve Bank President for his information and with the comment that the Chairman of the Conference has been asked to have the matter placed on the agenda for the forthcoming meeting.

Sincerely yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

Item No. 5
8/15/66

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PROPOSED LETTER TO ALL FEDERAL RESERVE BANKS ON DIRECT VERIFICATION

Dear Sir:

In the Board's letter of June 11, 1965, (S-1960, F.R.L.S. 3595), the Reserve Banks were requested to develop certain information about direct verification by State member banks, to discuss the lack of such program when appropriate, and to encourage the use of direct verification programs.

Direct verification of assets and liabilities is clearly desirable, and it is now believed that the System should undertake direct verification at each examination in instances where the State member bank does not have satisfactory internal controls and audit programs. To accomplish this objective the Reserve Banks are requested to inform all State member banks that the Federal Reserve System will, during each examination and at its expense, verify directly a percentage of the assets and liabilities of the bank unless internal control and audit programs are considered reasonably adequate.

The Reserve Bank should inform State bank supervisory authorities of these plans for direct verification, and every effort should be made to obtain the cooperation and assistance of the State banking departments.

Efforts to encourage State member banks to institute their own programs of direct verification as referred to in the Board's letter of June 11, 1965 should be continued and intensified.

For your information there are enclosed a copy of a letter from President Irons of the Federal Reserve Bank of Dallas dated July 14, 1966 commenting about that Bank's experience with direct verification, and a copy of instructions to all Regional Administrators from the Comptroller of the Currency, dated July 21, 1966, regarding the applicability of audit and verification procedures.

A letter dated June 22, 1962, from Mr. Frederic Solomon to Vice Presidents in Charge of Examinations, included a memorandum entitled "Examination Procedures Useful in Investigating Possible Irregularities in Small Banks." Among other practices mentioned in the memorandum is that of sight posting. This is considered so effective a method of uncovering irregularities in deposit accounts that the practice of sight posting incoming items from cash letters and local clearings is to be made a routine part of each examination unless the internal controls and audit coverage of the bank are such as to make this practice unnecessary.

Very truly yours,

Merritt Sherman,
Secretary.

Enclosures: 2

Item No. 6
8/15/66

UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C.

In the Matter of the Application of
CENTRAL STATE BANK
for approval of acquisition of assets of
Volga State Bank

ORDER APPROVING ACQUISITION OF BANK'S ASSETS

There has come before the Board of Governors, pursuant to the Bank Merger Act, as amended (12 U.S.C. 1828(c), Public Law 89-356), an application by Central State Bank, Elkader, Iowa, a State member bank of the Federal Reserve System, for the Board's prior approval of its acquisition of assets and assumption of deposit liabilities of Volga State Bank, Volga, Iowa, and, as an incident thereto, Central State Bank has applied, under section 9 of the Federal Reserve Act, for the Board's prior approval of the establishment by that bank of a branch at the location of the sole office of Volga State Bank. Notice of the proposed acquisition of assets and assumption of deposit liabilities, in form approved by the Board, has been published pursuant to said Act.

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

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

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said applications be and hereby are approved, provided that said acquisition of assets and assumption of deposit liabilities and establishment of the branch shall not be consummated (a) before the thirtieth calendar day following the date of this Order, or (b) later than three months after said date.

Dated at Washington, D. C., this 15th day of August, 1966.

By order of the Board of Governors.

Voting for this action: Governors Robertson, Shepardson, Mitchell, Daane, and Brimmer.

Absent and not voting: Chairman Martin and Governor Maisel.

(signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

APPLICATION BY CENTRAL STATE BANK
FOR APPROVAL OF ACQUISITION OF ASSETS OF
VOLGA STATE BANKSTATEMENT

The Central State Bank, Elkader, Iowa ("Central Bank"), with total deposits of about \$6.9 million, has applied, pursuant to the Bank Merger Act, as amended (12 U.S.C. 1828(c), Public Law 89-356), for the Board's prior approval of its acquisition of the assets and assumption of the liabilities of Volga State Bank, Volga, Iowa ("Volga Bank"), which has total deposits of \$640,000.^{1/} As an incident to the transaction, the sole office of Volga Bank would become a branch of Central Bank, increasing the number of its offices to three.

Competition. - The head office of Central Bank is in Elkader, a town with a population of about 1,600, which is the seat of Clayton County. The bank operates a branch about seven miles north of Elkader at St. Olaf, a community with a population of less than 200. The sole office of Volga Bank is in Volga, a community with a population of about 360, which is about 12 miles southwest of Elkader.

The relevant area for considering the competitive effects of the proposal consists of the central and southern portions of Clayton County and a narrow portion of eastern Fayette County. In this area,

^{1/} Figures are as of April 5, 1966.

eight offices of six banks compete in varying degrees with Central Bank, or with both Central Bank and Volga Bank. The total of 11 offices, operated by eight banks, altogether hold deposits of about \$23 million and total loans of approximately \$10 million. Central Bank, with about 27 per cent of the deposits and about 24 per cent of the loans, is the largest bank in the area. Volga Bank, with about 3 per cent of the deposits and about 1 per cent of the loans, is the smallest bank in the area. The second, third, and fourth largest banks hold approximately 23 per cent, 14 per cent, and 13 per cent, respectively, of area deposits.

The banking offices in the relevant area, because of their size and their location in an agricultural region, tend to draw the preponderance of their business from the communities in which they are situated. It does not appear that any of these offices would be adversely affected by the proposed transaction, which would not materially alter the structure of banking competition in the area.

There is some competition between Central Bank and Volga Bank. This competition is facilitated by the location of Elkader as the nearest trading center to Volga, and by the fact that a number of Volga residents commute to work in Elkader. The extent of the competition is limited by the size and nonaggressive policies of Volga Bank. Further, as discussed hereinafter under the banking

factors, it is unlikely that Volga Bank, if it remains an independent institution, will become a more effective competitive force because its location limits its earnings prospects and growth potential.

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

Financial and managerial resources and future prospects. -

The financial condition of Volga Bank is satisfactory and its capital position is relatively strong. However, the bank's earnings record is below average, partly as a result of its operating policies and partly because of the economy of the Volga community. In recent years Volga has experienced a marked decline in population relative to the over-all experience for Clayton County. The community is not a trading or marketing center, and its prospects for growth appear limited. These circumstances restrict the opportunity for Volga Bank to grow and, in turn, make it improbable that a capable successor can be found for the bank's chief operating officer, who is well past the normal retirement age. The prospects for Volga Bank are not favorable.

The banking factors, as they relate to Central Bank, are satisfactory and would not be adversely affected by the proposed acquisition of Volga Bank.

Convenience and needs of the communities. - The banking convenience and needs of Elkader and St. Olaf would not be appreciably affected by the proposed acquisition. The principal effect would be

in Volga, where a small unit bank would be replaced by a branch office of a larger and more progressive institution. The resulting benefit from these features for the banking convenience and needs of the community may be offset to some extent by local restrictions on branch bank operations. Under State law, branch offices are confined to accepting deposits and paying checks, and are required to refer loan applications to the head office. However, in view of the prospects for Volga Bank and for the community it serves, and in the light of the bank's management succession problem, there is a considerable question as to how long Volga Bank can realistically be expected to continue as a unit bank. Thus, the proposal would have the advantage of assuring the continuance of a banking facility for the Volga community.

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

Accordingly, the Board concludes that the application should be approved.

August 15, 1966.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 8
8/15/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 15, 1966

The First National Bank of Miami,
100 South Biscayne Boulevard,
Miami, Florida.

Gentlemen:

This refers to the application of your bank dated June 6, 1966, for permission of the Board of Governors under the provisions of Section 25 of the Federal Reserve Act, to purchase and hold stock of First Foreign Investment Corporation, Miami, Florida ("First Foreign"). Reference is also made to the agreement dated August 5, 1966, executed by First Foreign in accordance with the requirements of Section 25 of the Federal Reserve Act, by which such corporation agrees to restrict its operations and conduct its business in the manner set forth therein.

After consideration of the application and agreement, the Board of Governors of the Federal Reserve System approves the application and grants permission to The First National Bank of Miami, Miami, Florida, subject to the provisions of Section 25 of the Federal Reserve Act, to purchase and hold stock in First Foreign in the amount of approximately \$300,000. Please advise the Board of Governors, through the Federal Reserve Bank of Atlanta, the date First Foreign commences business.

The Board of Governors also grants consent for First Foreign to purchase and hold approximately 30 per cent of the capital stock of Miami Holdings Limited, a Bahamian corporation, at a cost of approximately US\$300,000, provided such shares are acquired within one year from the date of this letter. The Board also approves the purchase and holding of such shares in excess of 10 per cent of First Foreign's capital and surplus.

The foregoing consent for investment in Miami Holdings Limited is given with the understanding that the investment, combined with

The First National Bank of Miami -2-

foreign loans and investments of The First National Bank of Miami, will not cause the total of such loans and investments to exceed the guidelines established under the voluntary foreign credit restraint effort now in effect and that due consideration is being given to the priorities contained therein.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.