R 609

Minutes for August 19, 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 _____

Gov. Robertson _____

Gov. Shepardson _____

Gov. Mitchell _____

Gov. Daane _____

Gov. Maisel _____

Gov. Brimmer _____

Minutes of the Board of Governors of the Federal Reserve System on Friday, August 19, 1966. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Robertson, Vice Chairman
Mr. Shepardson
Mr. Mitchell 1/
Mr. Daane 2/
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. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Leavitt, Assistant Director, Division of Examinations
Miss Eaton, General Assistant, Office of the Secretary
Mr. Furth, Consultant
Mr. Morgan, Staff Assistant, Board Members' Offices

Messrs. Brill, Partee, Garfield, Gramley, Bernard, Ettin, Fry, Keir, Kelty, and Rosenblatt, and Mrs. Peskin of the Division of Research and Statistics

Messrs. Katz, Irvine, Reynolds, Baker, and Gemmill of the Division of International Finance

Money market review. Mr. Kelty reviewed developments in the Government securities market, Mr. Ettin commented on bank credit trends, Mr. Keir summarized developments in the capital markets, and Mr. Baker discussed foreign exchange matters. Copies of the respective papers have been placed in the Board's files, along with copies of the several charts and tables distributed at the meeting.

1/ Entered at point indicated in minutes.
2/ Withdrew at point indicated in minutes.

Governor Brimmer stated that he had requested the Board's staff to prepare a review of Desk operations in recent weeks, that he had found the resulting memorandum helpful, and that copies would be sent to the other members of the Board.

Staff members of the research divisions other than Messrs. Brill and Partee then withdrew from the meeting, as did Messrs. Furth and Morgan and Miss Eaton, and the following entered:

Mr. Farrell, Director, Division of Bank Operations
Mr. O'Connell, Assistant General Counsel
Messrs. Goodman and Thompson, Assistant Directors, Division of Examinations
Messrs. Shuter, Smith, and Pustilnik of the Legal Division
Mr. Golden and Miss Ormsby of the Division of Research and Statistics
Mr. Dahl of the Division of International Finance
Messrs. Egertson, Goodfellow, Harris, Lyon, Maguire, Poundstone, and Rumbarger, and Miss Greene of the Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on August 15 and by the Federal Reserve Banks of New York, Philadelphia, and San Francisco on August 18, 1966, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Branch application (Item No. 1). An application by Bank of America National Trust and Savings Association, San Francisco, California, to establish a branch in Bogota, Colombia, was approved unanimously. A copy of the letter evidencing the Board's action is attached as Item No. 1.

Application of First Virginia Corporation. There had been distributed a memorandum from the Division of Examinations dated August 10, 1966, and other pertinent papers relating to the application of The First Virginia Corporation, Arlington, Virginia, to acquire shares of The Staunton Industrial Bank, Staunton, Virginia. Approval was recommended.

Following a summary of the case by Mr. Lyon, Governor Shepardson suggested that if the application was approved by the Board the letter to the applicant refer to its debt to net worth ratio, which continued to be relatively heavy despite some reduction. There was general agreement with this suggestion.

Governor Brimmer recalled that some time ago it had been indicated that the Division of Examinations would prepare papers on the development of the banking structure in Virginia and other States. He said that he felt a need for such material. There appeared to be a tendency for the larger organizations in Virginia to grow by increments through isolated transactions. At some point, in his opinion, the Board should stand aside and look at the impact of the trend on the State as a whole in order to have better perspective in considering individual applications.

Mr. Leavitt commented on work being done pursuant to the assignment, following which Governor Daane noted that the Staunton proposal would bring into the area a subsidiary of a bank holding company that would serve as an active competitor to the branches of large banks

operating in the area. He believed approval of the application would be justified by the benefits to the area that would result.

Governor Brimmer commented that, as aforesaid, he did not at present have an overview of the situation in Virginia. It had struck him, however, that the Staunton bank was about like the average smaller bank in the State. It was not a weak bank and had no basic problems. Consummation of the proposed transaction would bring into the area some specialized services, but it was not obvious that the lack thereof was a great detriment to the community.

Governor Daane observed that there was the question whether, if expansion through the holding company route was denied, the State's large banks should be allowed to expand freely through branching. If the present proposal was approved, he thought there would be a benefit to the community not only from the availability of certain specialized services but also by virtue of the introduction of more aggressive competition.

Governor Brimmer repeated that he saw a need for basic longer-run guides to permit the application of appropriate criteria to individual cases.

Governor Robertson agreed. He found nothing in the record to indicate that the Staunton bank was in any trouble or that the convenience and needs of the community would be better served by substituting a subsidiary of a holding company system for the independent bank. At

best, the factors could be regarded as neutral. Consequently, determination of a case of this kind could be made better if the Board had the benefit of a general review of the kind to which Governor Brimmer had referred.

Governor Robertson added that he would not vote against the instant application because there was nothing in the record to show that harm would result. It seemed to be quite a neutral case. However, he did not feel that the best job was being done on applications of this kind in showing how services to the community involved would be improved. Certain claims almost invariably were made by applicants, but the Board should have a better basis for judging whether a given application could be supported in terms of improved service to the people of the community in question.

The application was then approved unanimously, with the understanding that an order and statement reflecting the decision would be prepared for the Board's consideration. 1/

Processing of applications. In an addendum to the discussion of the Staunton case, Governor Shepardson observed that considerations such as those referred to by Governor Robertson deserved more documentation. He hoped that the Banking Markets Section would contribute more on those aspects in future cases. He raised the question whether there was the degree of coordination between the Section and the Division of Examinations that the Board had envisaged.

1/ Governor Mitchell, upon joining the meeting, requested that he be recorded as voting in favor of the application, and it was agreed that this would be done.

Mr. Thompson described the procedures currently followed and said it was his understanding that the Banking Markets Section was preparing to play a considerably more active role. Mr. Golden indicated that this was correct. Mr. Leavitt added that the foregoing comments applied also to merger cases. Mr. O'Connell referred to the key role of the Reserve Banks in determining community needs through field investigations.

Governor Robertson noted the need for close cooperation between the Division of Examinations, the Legal Division, and the Banking Markets Section, not only with respect to particular cases but also in providing general guidance and leadership for the Reserve Banks.

Application of Wachovia Bank. There had been distributed under date of August 16, 1966, a memorandum from the Division of Examinations and other pertinent papers relating to an application of Wachovia Bank and Trust Company, Winston-Salem, North Carolina, to merge Bank of Ahoskie, Ahoskie, North Carolina. Approval was recommended.

There had also been distributed a memorandum from the Legal Division dated August 12 recommending that no question be raised with respect to the legality under Federal banking law of Wachovia's acquisition of controlling interest in Bank of Ahoskie in 1960.

Mr. Egertson outlined the facts of the case, and Mr. Hackley developed the reasoning underlying the position of the Legal Division on the question discussed in the August 12 memorandum.

The application was then approved unanimously, with the understanding that an order and statement reflecting this decision would be prepared for the Board's consideration. 1/

Suggested amendments to Regulation O (Items 2 and 3). There had been distributed a memorandum from the Legal Division dated August 15, 1966, resulting from the Division's study, at the Board's request, of the provisions of Regulation O, Loans to Executive Officers of Member Banks, with a view to proposing amendments designed to bring the Regulation more in line with changes that had occurred in banking operations since its adoption in 1936. Submitted for the Board's consideration were proposed amendments, which it was recommended be published in the Federal Register for comment, that would (1) in effect restrict the definition of "executive officer" to top management, and (2) exempt from the restrictions of the Regulation indebtedness incurred by an executive officer in connection with charge accounts.

After comments by Mr. Shuter on the suggested amendments, Mr. Hackley said the Legal Division believed it was the intent of Congress to limit the restriction on loans to the top officers of a bank. Since the law was enacted, however, there had been instances where, for example, banks with branches were faced with serious problems because of the interpretation the Board had given to the term "executive officer." That interpretation was so broad as to include managers of branches whose participation in formulating and implementing the policies of the bank

1/ Governor Mitchell, upon joining the meeting, requested that he be recorded as voting in favor of the application, and it was agreed that this would be done.

was very limited. Bank of America National Trust and Savings Association had written to the Board several times about that problem.

Mr. Hackley went on to point out that toward the end of 1963 the Comptroller of the Currency published an interpretation defining the term "executive officer" as including only those persons who actually participated in the formulation of policy and were responsible for the implementation of policy. Shortly thereafter the Board considered the matter and instructed the staff to review Regulation O, with particular attention to the question of redefining the term "executive officer." The Legal Division had considered various possibilities, and it now proposed changing the words "operating management" to "general management" and deleting the words "or any branch thereof." The statement accompanying publication in the Federal Register would indicate the Board's intent to include in the definition of "executive officer" only a bank's policy-making officers.

Mr. Hackley recalled that the question of charge accounts came before the Board a year or so ago, at which time the Board felt that the transfer of a charge account to a bank from a department store, for example, created an indebtedness that literally fell within the coverage of Regulation O, but it was understood that that question would be considered further in connection with any revision of the Regulation.

Governor Robertson said that on the charge account proposal he was completely sympathetic. He noted that the draft amendment contained,

for the Board's consideration, a $500 limitation on the aggregate amount that an executive officer could charge under this exemption from the requirements of section 22(g) of the Federal Reserve Act. He saw no need for the limitation; he would extend the exemption to any such account acquired by a bank in the ordinary course of business. On the other proposal, however, he noted that the proposed definition of "executive officer" would not distinguish between the managers of small branches and the managers of large branches. He suggested that a decision on this part of the proposal be postponed to see whether pending legislation was enacted that would ease the provisions of the law in certain respects, including the availability of loans for housing purposes.

Mr. Hackley agreed that there could be a difference in the situation of managers of large and small branches, but said the Legal Division felt that it would be difficult to make a distinction in the Regulation itself and that the Board probably would have to make ad hoc determinations.

Governor Robertson pointed out that the pending legislation would raise from $2,500 to $5,000 the amount of indebtedness an executive officer could incur at his bank. Loans for housing purposes could be made in addition. That combination, he thought, should serve to solve most of the problems of an institution such as Bank of America. However, if the pending legislation should be enacted, the Board would still be free to redefine the term "executive officer" as it saw fit. If the Board

acted now, that might militate against passage of the legislation; if the legislation was not passed, the Board could consider the matter further.

A consensus developed in favor of proceeding along the lines suggested by Governor Robertson. It was agreed to publish for comment a proposed amendment in the Federal Register on the charge account matter but, on the definition of "executive officer," to go only so far at this time as to send the draft amendment to the Federal Reserve Banks for comment. Mr. Hackley was authorized to advise Bank of America informally that the fact that only the proposed amendment regarding charge accounts was being published did not mean that the Board had decided against giving consideration to possible redefinition of the term "executive officer."

Attached as Item No. 2 is a copy of the notice subsequently published in the Federal Register; attached as Item No. 3 is a copy of the letter sent to the Federal Reserve Banks.

Governor Mitchell joined the meeting during the foregoing discussion.

Capital Bancshares (Item No. 4). There had been distributed a memorandum from the Legal Division dated August 18, 1966, relating to the action of Capital Bancshares, Inc., a Florida corporation with offices in Miami, Florida, and Dallas, Texas, and a group of investors associated with Capital in purchasing more than 41 per cent of the common stock of Underwriters Trust Company, New York, New York, a nonmember

insured bank. (Capital Bancshares had itself acquired 24.9 per cent of the outstanding stock.)

On July 29, 1966, Governor Robertson had reported to the Board that the Superintendent of Banks of New York had advised of his understanding of the stock acquisition and raised the question whether the transaction might be in violation of the Bank Holding Company Act. At the Board's request, the staff then proceeded to obtain additional information through the Federal Deposit Insurance Corporation and the Federal Reserve Banks.

In a letter to the Board of August 10 the President of Underwriters Trust Company requested a determination as to whether the purchase of stock of the bank by Capital Bancshares and the group of associated investors constituted Capital Bancshares, either alone or in conjunction with the investment group, a bank holding company within the meaning of the Bank Holding Company Act and, if so, whether Underwriters was a subsidiary of a bank holding company. In a letter of August 12 President Tamney asked whether it would be proper for Underwriters to transfer the shares before the Board had determined whether the transfer of such shares was in violation of the Holding Company Act.

From its investigation the Board's staff concluded that insufficient evidence existed to support a finding that Capital Bancshares was a bank holding company, as that term is defined in the Holding Company Act. Further, the staff did not believe there was sufficient evidence upon which to premise a finding that the ownership or control of banks

by the individuals asserted to be in association with Capital Bancshares--or its principal officer--constituted, as a legal matter, ownership or control directly or indirectly by Capital. Neither was the staff able to find statutory ownership or control by any one of the corporate organizations that had been studied, or an identifiable group thereof, of more than 25 per cent of the stock of two or more banks. In the staff's judgment the Board would not be justified in taking a position that any one of the corporations, or groups thereof, controlled the election of a majority of the directors of each of two or more banks. It was recommended that a letter be sent to Underwriters Trust Company along the lines of a draft submitted with the memorandum.

Mr. O'Connell reviewed the investigation that had been made and the reasons for the conclusions reached, following which Governor Robertson suggested that there be included in the proposed letter qualifying language to the effect that if facts should come to light in the future that indicated violations of law in any respect, a different position might of course be taken.

Governor Shepardson noted that recently the Board had been requested by a member of the Congress to submit views on proposed legislation to amend the Bank Holding Company Act further. He raised the question whether it would seem appropriate to call the attention of the Congress to a situation of the kind represented by Capital Bancshares as an argument for additional holding company legislation.

Governor Robertson suggested that that might be premature in view of the study currently being made by the Board's staff, under the direction of Governor Brimmer, concerning situations somewhat similar to that involved in the Capital Bancshares case.

Governor Brimmer agreed that it would be desirable to await the results of that study. He then referred to the flavor of concern found in the August 18 memorandum and suggested incorporating something of that flavor in the proposed letter, a copy of which, he noted, was to be sent to the Superintendent of Banks of New York.

Governor Robertson indicated that that was a reason for the suggested amendment to the draft letter that he had mentioned earlier, and it was agreed that the letter would be amended along such lines.

There followed additional questions and comments on the facts of the case, and a further suggestion was made that the letter emphasize that the Board's present conclusions were based on the presently available evidence.

At the conclusion of the discussion unanimous approval was given to a letter to Underwriters Trust Company in the form attached as Item No. 4, with the understanding that copies would be sent to the Federal Deposit Insurance Corporation and the Superintendent of Banks of New York.

Governor Daane withdrew from the meeting at this point.

Dedication ceremonies at New Orleans. Mr. Farrell presented a question raised by President Patterson of the Federal Reserve Bank of

Atlanta with regard to the plans being made for dedication of the new New Orleans Branch building in October. The question was whether it would be appropriate to invite as luncheon guests the wives of member bankers who would be present for the dedication ceremonies.

It was agreed that it would be appropriate to invite the wives of the member bankers, on the understanding that the luncheon was to be held in the new Branch building.

Meeting with Congressman Ullman. The Vice Chairman noted that each member of the Board had received a wire from Congressman Ullman of Oregon containing criticisms with respect to monetary policy. Governor Robertson said he had invited the Congressman to have lunch with him today at the Board's building, with a view to discussing the areas of criticism, and the other members of the Board indicated that they were satisfied to leave the matter on that basis.

The meeting continued from this point with limited staff attendance.

Discount administration. There had been distributed a staff memorandum dated August 18, 1966, submitting a draft of a memorandum on coordination of discount administration with other instruments of monetary policy in the current economic environment. The draft document was intended to carry out the purposes of the proposed communication with the Federal Reserve Banks on this subject that had been discussed by the Board on Wednesday, August 17.

Governor Robertson referred to a paragraph in the draft memorandum that stated that room would have to be left for the borrowing banker to exercise his own judgment in choosing among alternative courses; that if, rather than submit to a program of tightening loan policies and rebuilding liquidity in order to gain added discount accommodation, he chose to effect his adjustment through more conventional means, he should be allowed to do so, but with the benefit of no more discounting assistance than would accrue to him under the present interpretation of Regulation A (Advances and Discounts by Federal Reserve Banks).

Governor Robertson raised the question whether this paragraph should be deleted, on the ground that it seemed contrary to the objective of administering the discount window in the current environment in such a way as to encourage restriction of the expansion of those bank loans that were adding to the inflationary problem and discourage the selling of municipal securities.

Mr. Holland replied that the intent was to provide some assurance that the discount window would not be closed to the kind of credit assistance for which it had customarily been available. In addition, there was the question whether the Federal Reserve Banks should move directly into the area of overriding the management judgment of individual member banks. That would amount to a fundamental change in relationships between the discount window and the banking system.

Governor Robertson said he would not intend to prevent the use of the discount window for purposes falling within the present scope of Regulation A, but he would say that in more specific language.

Governor Mitchell expressed the view that no more than a drafting problem appeared to be involved, following which Governor Brimmer said he would not want to go so far as to substitute Federal Reserve judgment, in detail, for the judgment of bank management. Governor Robertson said there was no difference of opinion on that point.

In further discussion Governor Brimmer inquired whether some system of monitoring or screening would not be desirable in order to obtain an understanding of the adjustment processes followed by banks that did not come to the discount window. Governor Mitchell expressed doubt that much could be done along those lines unless individual banks came to the discount window, but Governor Brimmer inquired whether there was not some way in which the portfolio structures of nonborrowing banks, particularly those included among the large weekly reporting banks, could not be observed so that the Reserve Banks could have discussions with them if necessary. He recognized that any such program would require substantial staff resources. Governor Mitchell recalled having suggested a year or so ago that plans be made for a surveillance system. However, the analytical framework for such a program had not yet been produced. Mr. Holland observed that the Reserve Banks could be encouraged to keep an eye on developments qualitatively, to which he added that the staff

had not had the time to formulate a program such as Governor Mitchell had suggested. Further comments were to the effect that it was hoped that such a program could be expedited.

Governor Robertson then said that he would like to state his interpretation of the general intent of the draft document in order to make sure that there was no fundamental disagreement within the Board. As he understood it, there was no intention to prevent the use of the discount window to provide funds for emergency, temporary, or seasonal needs. Instead, the objective of the proposed program was to enable the System to exercise moral suasion in trying to get member banks to make necessary adjustments through their loan portfolios, as contrasted to disposing of municipals or borrowing more funds to expand their loans further. However, a curtailment of loans was likely to prolong the adjustment period, and cooperating banks would receive preferred treatment at the discount window.

Governor Mitchell expressed general agreement with that interpretation, following which Governor Brimmer inquired whether it was intended that the proposed program would be applied to all cases of borrowing, including credit assistance under the existing interpretation of Regulation A, or only in cases where banks were being considered for greater-than-usual accommodation at the window.

Governor Robertson replied that he anticipated increased use of the discount window, and by virtue of that circumstance the System would be in a position to exercise additional control.

Governor Brimmer said he gathered from the draft document that banks coming in for usual accommodation would be judged against the new set of standards, and Mr. Holland replied that he had had in mind that when a bank came to the discount window, even for usual discount accommodation, the Reserve Bank might at least raise a question about the bank's lending policies and discuss liquidity. However, insistence on certain commitments, as described in the draft memorandum, would only be required as a quid pro quo for an extra degree of credit assistance.

Governor Mitchell suggested that if agreement on the proposed program was reached with the Reserve Bank Presidents, the Banks should then take steps promptly to make member banks aware of the objectives of the program and the options that would apply if banks came to the discount window.

Governor Robertson observed that a program of this kind could function only on a System basis. There would have to be concurrence by the Reserve Bank Presidents with the general theme of the program. Therefore, he would propose sending a draft document to them immediately so that they could be prepared to discuss the subject with the Board when they were in Washington for the meeting of the Open Market Committee next week. If agreement was achieved, it would then be up to the Reserve Banks to contact bankers in their respective districts in order to promote an understanding of the nature of the program and its purpose, which was fundamentally to enlist all banks in the job of curtailing the expansion of bank credit in an effort to combat inflation.

Governor Brimmer suggested the possibility of issuing a public statement. Governor Mitchell agreed, commenting that it would be well for bank borrowers to be made aware of the program and what it involved. Governor Shepardson suggested that a letter might be sent to all member banks. Governor Robertson commented that any statement or letter would have to be drafted carefully. He agreed, however, that it would be desirable for borrowers to know that the banks were under pressure and for the banks to know exactly what they could expect when they came to the discount window.

There followed further discussion with respect to portions of the draft document, following which Governor Robertson noted that there appeared to be sufficient agreement to turn the document over to Mr. Holland for editing. It could then be cleared with the members of the Board individually and sent to the Reserve Bank Presidents, with a request that the Presidents meet with the Board next Tuesday.

It was agreed that such a procedure would be followed.

There followed comments on the steps that might be required to maintain adequate surveillance, if the program were adopted, and to keep the Board informed of developments. There was general agreement that this phase of the matter deserved continuing attention as developments unfolded.

Proposed legislation on interest rates (Item No. 5). Governor Robertson reported on the status of plans for debate by the House of

Representatives of proposed legislation relative to the regulation of payment of interest on deposits. It was his understanding that the debate would center on the House bill supported by Congressman Patman, but that some other member of the House might offer as a substitute a bill along the lines of the bill that the Board had supported before the Senate Banking and Currency Committee. He also understood that the Senate bill, in its present form, contained certain provisions liberalizing the making of real estate loans by national banks.

There was general agreement with Governor Robertson's view that it would not seem necessary, at least at this time, for the Board to attempt to express itself on the real estate lending provisions of the Senate bill.

Secretary's Note: Attached as Item No. 5 is a copy of a letter that was sent on August 23, 1966, over the signature of the Vice Chairman to the Chairman of the House Rules Committee in response to his request for the views of the Board on S. 3687.

The meeting then adjourned.

Secretary's Notes: On August 18, 1966, a letter was sent to Bank of America National Trust and Savings Association, San Francisco, California, acknowledging receipt of notice of its intent to establish an additional branch in the United Kingdom, to be located in Birmingham, England. The letter noted that no capital investment would be required to establish the branch.

Letters were sent today to First National City Bank, New York, New York, acknowledging receipt of notice of its intent to establish

the following branches: (1) an additional branch in Puerto Rico, to be located in the Hato Rey section of San Juan; and (2) an additional branch in Switzerland, to be located in Zurich. With respect to the proposed Zurich branch, it was noted that all necessary expenditures required to establish the branch would be obtained from the bank's branch in Geneva.

On August 18, 1966, Governor Shepardson approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Chicago (copy attached as Item No. 6) approving the appointment of Robert B. Bowman as examiner.

Memoranda recommending the following actions relating to the Board's staff:

Acceptance of resignations

Paul T. Manns, Summer Trainee, Division of Administrative Services, effective the close of business August 17, 1966.

Philip H. Etzel, Summer Trainee, Division of Administrative Services, effective the close of business August 19, 1966.

Darrell Pepper, Chart Machine Operator, Division of Data Processing, effective the close of business August 26, 1966.

Governor Shepardson today approved on behalf of the Board the following items:

Memorandum from the Division of Research and Statistics dated August 17, 1966, recommending the establishment of a stenographic position in the Administration Section, Staff Services.

Memoranda recommending the following actions relating to the Board's staff:

Appointments

Lila D. Roberts as Telephone Operator, Division of Administrative Services, with basic annual salary at the rate of $4,701, effective the date of entrance upon duty.

Appointments (continued)

Mary W. Wahle as Records Clerk, Office of the Secretary, with basic annual salary at the rate of $5,256, effective the date of entrance upon duty.

Rescission of resignation

Edward J. Finck, Purchasing Assistant, Division of Administrative Services, whose resignation had previously been accepted as of the close of business August 31, 1966.

Acceptance of resignations

Helen B. Fox, Clerk-Librarian, Division of Personnel Administration, effective the close of business August 19, 1966.

Donna A. Jameson, Clerk-Typist, Division of Personnel Administration, effective the close of business August 26, 1966.

Secretary

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

Item No. 1
8/19/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 19, 1966.

Bank of America National Trust
and Savings Association,
300 Montgomery Street,
San Francisco, California. 94120

Gentlemen:

The Board of Governors of the Federal Reserve System grants its permission to Bank of America National Trust and Savings Association, San Francisco, California, pursuant to the provisions of Section 25 of the Federal Reserve Act, to establish a branch in the City of Bogota, Colombia, and to operate and maintain such branch subject to the provisions of such Section and of Regulation M.

Unless the branch is actually established and opened for business on or before September 1, 1967, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

With respect to the establishment of foreign branches, funds provided by home office (whether in the form of allocated capital, advances, or otherwise) should be regarded as foreign assets for purposes of the voluntary foreign credit restraint effort.

Please inform the Board of Governors, through the Federal Reserve Bank of San Francisco, when the branch is opened for business, furnishing information as to the exact location of the branch. The Board should also be promptly informed of any future change in location of the branch within the City of Bogota.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

FEDERAL RESERVE SYSTEM

Item No. 2
8/19/66

[12 CFR Part 215]

[Reg. O]

LOANS TO EXECUTIVE OFFICERS OF MEMBER BANKS

Notice of Proposed Rule Making

The Board of Governors is considering amending § 215.1(c) to add a new exemption (iv) to the second sentence thereof so that the terms "loan", "loaning", "extension of credit", and "extend credit" within the meaning of the regulation would not include "the acquisition by a bank in the usual course of business of charge or time credit accounts that represent indebtedness incurred by an excutive officer for the purchase of goods or services".

The proposed amendment is designed to exclude from the obligations and restrictions of section 22(g) of the Federal Reserve Act (12 U.S.C. 375a) and Part 215 indebtedness of an executive officer to his own bank or another bank that arises from the acquisition by the bank of charge or time credit accounts, provided such indebtedness represents an obligation of the executive officer to pay for goods or services. The exemption would be applicable to such indebtedness charged with stores or merchants either directly or indirectly through national or local credit card companies or similar agencies. The exemption would be applicable even if such companies or agencies are affiliated with any bank.

To aid in the consideration of this matter by the Board, interested persons are invited to submit relevant data, views, or arguments. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C., 20551, to be received not later than September 12, 1966.

Dated at Washington, D. C., this 19th day of August, 1966.

By order of the Board of Governors.

(SEAL) (Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
8/19/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 31, 1966.

Dear Sir:

The Board of Governors is publishing in the Federal Register the enclosed notice of a proposed amendment to add to the last paragraph of § 215.1(c) an additional exemption from the provisions of section 22(g) of the Federal Reserve Act and Regulation O, "Loans to Executive Officers of Member Banks." (Attachment A).

The Board is also considering the desirability of an amendment to the definition of "executive officer" in Regulation O that would be designed to limit the definition to those persons, other than non-officer directors, who are directly responsible for the general management of a bank. For example, the proposal would be intended to exclude any person who is a manager or assistant manager of a branch, unless he is directly responsible for the development of the general policies of the bank and its general operations. A copy of such a proposed amendment is enclosed herewith (Attachment B). However, it is not being published at this time in the Federal Register for comment by the public because of the pendency of legislation, already passed by the Senate, that would liberalize restrictions on loans to executive officers and the possibility that publication of a proposed redefinition of "executive officer" might impair the prospect of enactment of that legislation.

The Board would appreciate receiving the views of your Bank on both of these proposals.

Very truly yours,

Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Enclosure.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 4
8/19/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 19, 1966.

Mr. J.B.V. Tamney, President,
Underwriters Trust Company,
50 Broadway,
New York 4, New York.

Dear Mr. Tamney:

This acknowledges your letters of August 10 and 12, 1966, advising of information in the possession of Underwriters reflecting the purchase of 24,944 shares of Underwriters' common stock, or approximately 41.5% of the 60,000 shares of stock outstanding, by a group of investors including Capital Bancshares, Inc., a Florida corporation, with offices in Miami, Florida, and Dallas, Texas, and certain other investors associated with Bancshares. Together, your letters identify the individuals and organizations which Underwriters has been informed constitute the "investing group" and, further, state Underwriters' information regarding the names of the corporations, trusts, nominees, and individuals in whose names the 22,844 shares of Underwriters purchased from the Estate of C. W. Korell are to be registered. We understand that you have orally advised Mr. O'Connell of the Board's staff that Underwriters is the stock transfer agent with respect to the transaction in question; that as of August 16, 1966, none of the shares reported to have been purchased had been presented for registration to Underwriters; and that Underwriters' source of information regarding the names of purchasers of the stock and the names in which such shares of stock are to be registered is Mr. Caesar L. Pitassy, a member of the law firm of Royall, Koegel, & Rogers, New York City.

Your letters of August 10 and 12, 1966, request a determination by the Board of whether Bancshares is a bank holding company within the meaning of the Bank Holding Company Act of 1956, and if it, or the investing group reportedly associated with Bancshares, is a bank holding company within the meaning of the Act whether Underwriters is a subsidiary of such bank holding company. You also asked to be advised as to whether it would be proper for Underwriters to transfer the shares of stock in question into the names noted in your letter prior to a determination by the Board of whether such transfer would be in violation of the Act.

Section 2(a) of the Act provides, in pertinent part, that a bank holding company is "any company (1) that directly or indirectly owns, controls, or holds with power to vote 25 per centum or more of the voting shares of each of two or more banks . . ., or (2) that controls in any manner the election of a majority of the directors of each of two or more banks; . . .". "Company" is defined in the Act (Section 2(b)) as "any corporation, business trust, association, or similar organization" or trust, except as therein specifically excluded. Premised upon the information concerning the reported stock purchase furnished in your letters of August 10 and 12, 1966, and upon additional information in the Board's possession relating to Bancshares and reported affiliations, relationships, and interests with it, the Board has concluded that Bancshares does not directly own and/or control 25% or more of the voting shares of more than one bank. This conclusion takes into consideration the reported ownership by Bancshares of 9,794 shares of Underwriters, representing 16% of the outstanding 60,000 shares. The Board has no evidence that Bancshares directly owns or controls shares in any other bank in an amount that would equal 25% or more of such bank's total voting stock.

Regarding a possible attribution to Bancshares of the shares of Underwriters' stock reportedly purchased by individuals and/or organizations making up the aforementioned "investing group", the Board is unable to conclude that Bancshares could be said to own or control, directly or indirectly, such shares. Nor do the relevant facts establish that Bancshares controls or would control "in any manner the election of a majority of the directors of each of two or more banks". As reflected in the earlier-quoted portion of Sections 2(a) and (b) of the Act, bona fide ownership or control of bank stocks by individuals is not covered by the Act. However, if stock purported to be owned by individuals or a group of individuals can, in fact, be proven to be owned or controlled, directly or indirectly, by a company, then such company can be held to be a "bank holding company" within the meaning of the Act. Thus, while the facts presented to the Board evidence a close relationship between Bancshares (a "company" as defined in the Act) and the individuals and related organizations reportedly associated with Bancshares, the Board is unable to conclude that the shares of Underwriters or other banks owned or controlled by such individuals, regardless of the number of such shares held, can be said to be owned or controlled, directly or indirectly, by Bancshares. Similarly, shares of Underwriters owned or controlled by institutional or corporate interests comprising part of the investing group mentioned by you, cannot, in the Board's opinion, be considered in law as controlled by Capital.

Corporate control of even one bank, or control of two or more banks in such a manner as to circumvent the regulatory provisions of the Act, has been and continues to be a source of deep concern to the Board. As you know, continuously since 1958 the Board has urged Congress to adopt a definition of "bank holding company" that would relate to ownership or control of 25 per cent of the stock of a single bank. To date, such a definition has not been enacted by the Congress. Furthermore, existing provisions of law do not extend to the many existing situations where effective control of two or more banks is exercised by one or more corporate entities in concert with related individual interests. The latter situation, apparently paralleling that involved in the reported acquisition of control of Underwriters, is one to which the Board will continue to direct its attention to the end that control mechanisms potentially inimical to the public interest will be subjected to appropriate regulation.

The Board has also considered application of the term "company" as used in the Act, to the "investing group" mentioned in your letters. As earlier stated, "company" is defined in the Act to include ". . . association, or similar organization . . .". While the group involved has apparently acted in concert for an agreed objective, namely, the acquisition of operating control of Underwriters, and as a result comes within the popular concept of an "association", it is the Board's opinion that, viewing the group as a functioning entity, it lacks the structual characteristics of an association of the kind which the Board believes is intended to be brought within the Act. A strict construction of the terms "association, or similar organization" would require, in the Board's judgment, exclusion from those terms of a group of individuals and institutions of the make-up and with the characteristics of the "investing group" here involved.

Accordingly, the Board concludes that, on the basis of the facts presently available to it, Bancshares is not a bank holding company, nor is Underwriters a "subsidiary" of Bancshares within the meaning assigned that term in the Act. However, if facts not presently known to the Board are later presented that suggest the need for reconsideration of this matter, the Board will promptly review its above determination in the light of such newly disclosed facts. In view of the Board's determinations regarding the questions raised in your August 10 letter, the Board believes unnecessary a response to your inquiry of August 12 regarding the legality of the contemplated stock transfers.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

3064
Item No. 5
8/19/66

OFFICE OF THE VICE CHAIRMAN

August 23, 1966.

The Honorable Howard W. Smith,
Chairman,
House Rules Committee,
House of Representatives,
Washington, D. C. 20515

Dear Mr. Chairman:

This is in response to your request for the views of the Board of Governors on S. 3687, relating to establishment of maximum rates of return payable on deposit-type savings. The first five sections of the bill were submitted to Senator Robertson, Chairman of the Senate Banking and Currency Committee, by the Board, which recommends their enactment. These provisions of the bill would provide flexible authority for Federal supervisory agencies--the Federal Deposit Insurance Corporation, the Federal Reserve Board, and the Federal Home Loan Bank Board--to establish maximum rates payable by banks, mutual savings banks, savings and loan associations, and similar institutions that are Federally insured or members of the Federal Home Loan Bank System. Regulation of rates would be discretionary, so that ceilings could be established under conditions that pose a threat of excessive rate competition, but could be removed in less troublesome times when they are not needed. Provision is made for consultation among the three agencies before changing ceiling rates. The bill would also widen the range within which the Federal Reserve Board may fix reserve requirements on time and savings deposits, by raising the statutory maximum to 10 per cent (it is now 6 per cent). In addition, the Federal Reserve System would be authorized to buy and sell in the open market obligations issued or guaranteed by agencies of the United States.

Enactment of this legislation would help to cope with rapidly changing developments in credit markets under conditions such as those presently existing when a rapid expansion of the economy has placed severe strains on resources.

Also incorporated in S. 3687 (as section 6 thereof) are certain provisions broadening loan powers of national banks, on which the Board has taken no position.

Sincerely,

(Signed) J. L. Robertson

J. L. Robertson.

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

Item No. 6
8/19/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 19, 1966

Mr. Leland M. Ross, Vice President,
Federal Reserve Bank of Chicago,
Chicago, Illinois. 60690

Dear Mr. Ross:

In accordance with the request contained in your letter of August 15, 1966, the Board approves the appointment of Robert B. Bowman, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Chicago, effective September 5, 1966.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.