





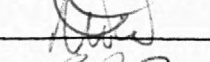
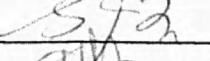
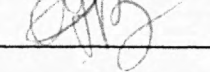
Minutes for October 26, 1966

To: Members of the Board
From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin	<u></u>
Gov. Robertson	<u></u>
Gov. Shepardson	<u></u>
Gov. Mitchell	<u></u>
Gov. Daane	<u></u>
Gov. Maisel	<u></u>
Gov. Brimmer	<u></u>

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, October 26, 1966. The Board met in the Board Room at 10:00 a.m.

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

Mr. Kenyon, Assistant Secretary
Mr. Broida, 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. Solomon, 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. Brill, Director, Division of Research and
Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel
Administration
Mr. Hexter, Associate General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Morgan, Staff Assistant, Board Members'
Offices
Mr. Sanders, Senior Attorney, and Mr. Smith,
Attorney, Legal Division
Mr. Lyon, Review Examiner, Division of Examinations

Approved items. The following items, copies of which are attached under the respective numbers indicated, were approved unanimously following consideration of background materials that had been made available to the members of the Board:

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Item No.

Letter to Manufacturers Hanover Trust Company, New York, New York, granting an extension of time to establish a branch at 111-121 William Street, Borough of Manhattan.

1

Letter to The Bank of Virginia, Richmond, Virginia, granting an extension of time to establish a branch in Henrico County and commenting on the bank's capital position.

2

Letter to the Federal Deposit Insurance Corporation regarding the application of Charlevoix County State Bank, Charlevoix, Michigan, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.

3

Letter to the Assistant Secretary of the Federal Advisory Council enclosing a list of suggested topics for discussion at its forthcoming meeting with the Board.

4

Letter to the Federal Reserve Bank of St. Louis approving payment of salary to John W. Druelinger as Assistant Cashier at the Little Rock Branch for the period October 16 through December 31, 1966, at the rate fixed by the Bank's Board of Directors.

5

Reports on competitive factors. A report to the Comptroller of the Currency on the competitive factors involved in the proposed purchase of assets and assumption of liabilities of First National Bank of Lake George, Lake George, New York, by The First National Bank of Glens Falls, Glens Falls, New York, was approved unanimously for transmittal, following discussion and adoption of a proposal by Governor Maisel that the conclusion state that the overall competitive effect of the transaction

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would be somewhat adverse. In the form in which the report was transmitted, the conclusion read as follows:

The proposed purchase of assets and assumption of liabilities of First National Bank of Lake George by The First National Bank of Glens Falls would eliminate some competition existing between them and increase modestly the size of the now largest bank headquartered in the area. However, the resulting bank would be competing with branches of larger banks headquartered elsewhere, and the overall competitive effect of the transaction is somewhat adverse.

A report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of Citizens Valley Bank, Albany, Oregon, and Bank of Shedd, Shedd, Oregon, was approved unanimously for transmittal, the conclusion reading as follows:

Consummation of the proposed merger of Citizens Valley Bank, Albany, Oregon, and Bank of Shedd, Shedd, Oregon, would eliminate some existing and potential competition between the two banks but would enhance the ability of the resulting institution to compete with the area offices of the State's two largest banks. It appears that the overall effect on competition would not be adverse.

Applications of First National Bank of Tampa and Union Security & Investment Company (Items 6 and 7). There had been distributed drafts of an order and statement reflecting the Board's approval on October 11, 1966, of applications by The First National Bank of Tampa and Union Security & Investment Company, both of Tampa, Florida, for permission to acquire 55 per cent of the voting shares to be issued by First National Bank of Brooksville, Brooksville, Florida, a proposed new bank.

Issuance of the order and statement was authorized. Copies are attached as Items 6 and 7, respectively.

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Action to implement Public Law 88-593 (Item No. 8). Under date of August 23, 1966, Chairman Patman of the House Banking and Currency Committee had written to the Board requesting copies of reports received pursuant to the provisions of Public Law 88-593 (dealing with change in control of any insured bank or loans by insured banks secured by 25 per cent or more of the outstanding voting stock of an insured bank), information concerning "problem" cases encountered in administering the statute, and comments regarding the Board's experience under the law. In addition, Chairman Patman had requested information concerning the expected impact on Board procedures of Public Law 89-487 (the so-called "Freedom of Information Act") and the measures taken or planned to comply with its requirements; however, Mr. Cardon had been advised by staff of the Committee that the inquiry regarding the reports rendered under Public Law 88-593 was of principal concern at this time.

Preliminary discussion of Chairman Patman's inquiry took place at the Board meetings on September 29 and 30, 1966, as a result of which the staff was instructed to confer with the staff of the Federal Deposit Insurance Corporation, which had received a similar request, to seek development of a common position, and to report back to the Board with alternative draft responses that would: (1) furnish the reports requested; (2) list the banks whose stock was reported to have been transferred or pledged, together with the names of transferees, beneficial owners, and borrowers involved, but not the names of transferors, number of shares

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involved, purchase price, or amount borrowed; or (3) decline to furnish the information.

There had now been distributed a memorandum from Mr. Cardon dated October 20, 1966, to which were attached drafts of letters to Chairman Patman embodying the foregoing alternative approaches to a response.

The memorandum stated that consultations with the staff of the Federal Deposit Insurance Corporation had failed to develop a consensus on how Chairman Patman's inquiry should be answered. The Corporation's staff was disposed to transmit a table showing the number of reports received, classified according to what action was taken; however, if obliged to choose between the first two alternatives set forth above, the Corporation's staff would choose the second.

The memorandum further commented that while the "invasion of privacy" argument could be advanced as justification for declining to furnish any of the information sought, it could also be argued that the Committee had a right to the reports, enforceable by subpoena, as an incident to the discharge of its legislative duties.

On balance, however, it was believed that the Committee would be satisfied if the Board were to take a middle course, and approval of the second alternative letter was recommended.

In the course of ensuing discussion, Governor Brimmer indicated that while transmittal of the proposed letter would take care of the

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immediate question at hand, he believed a more fundamental consideration was also involved; namely, whether the Board did not have a responsibility under Public Law 88-593 to submit a substantive report to the Congress on its own initiative, as part of its Annual Report each year. He believed there was such an obligation, and recommended that that be done.

Governor Robertson concurred with this suggestion, adding that, in addition to a summary of information received, the Annual Report should contain an explanation of the procedures established for surveillance and follow-up, as well as a statement of remedial or supervisory action taken, although without naming individual banks.

There was general agreement that such annual reporting would be desirable.

The form of reply proposed in Mr. Cardon's second alternative draft was thereupon approved unanimously for transmittal to Chairman Patman. A copy is attached as Item No. 8.

During the foregoing discussion Mr. Sammons, Associate Director, and Mr. Irvine, Adviser, Division of International Finance, entered the room and at its conclusion Messrs. O'Connell, Smith, and Lyon withdrew.

Operation of bank credit card plan through nonstock corporate subsidiary (Item No. 9). There had been distributed a memorandum from the Legal Division dated October 24, 1966, regarding a proposal by four California member banks to establish and operate a common bank credit card plan, to be administered by a nonstock corporate affiliate to be called the "California Bankcard Association."

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The Association would be incorporated without capital stock under the California General Nonprofit Corporation Law, and would be open to membership of other California commercial banks. It would perform certain functions required for the operation of the credit card plan, including credit information, sales audit, card security control, merchant directory preparation, and advertising, and its operating expenses would be defrayed by charges assessed against members.

The memorandum noted that in connection with recent proposals by State member banks to establish "operations" subsidiaries for purposes such as selling money orders or leasing personalty, the Board had taken the position that the stock purchase prohibition of section 5136, Revised Statutes, would apply because the acquisition of stock of such companies was neither specifically permitted by Federal law nor within the concept of exercising "such incidental powers as shall be necessary to carry on the business of banking." At the same time, however, it had been recognized that the prohibition of section 5136 could be circumvented by creation of an operations subsidiary in a manner not involving the purchase of stock, and on August 26, 1966, the Board had written to the Reserve Banks inviting comment on the question whether legislation should be recommended to allow acquisition of such subsidiaries through stock purchase transactions as well.

The memorandum went on to observe that if, on the other hand, as a policy matter the Board should determine that member banks should not

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be permitted to establish operations subsidiaries, the proposal currently under consideration suggested that prohibitory legislation should be written so as to cover control of nonstock subsidiaries as well as the acquisition of stock other than by purchase.

Attached to the memorandum was a draft of letter to the San Francisco Reserve Bank stating that the formation of a nonstock affiliate would not constitute a change in the general character of a State member bank's business so as to violate the condition of membership prohibiting such change without Board approval, that on the basis of available information the provisions of the Bank Service Corporation Act would be inapplicable, and that since there would be no purchase of stock the limitations of section 5136 of the Revised Statutes were inapplicable. The conclusion was stated that Board approval of the plan was not required and the State member banks involved were not prohibited by Federal banking statutes from participating in the plan.

In the course of discussion, Governor Brimmer inquired as to the views of counsel for the San Francisco Reserve Bank. Mr. Sanders replied that counsel had expressed a belief that the proposal might be construed as involving a change in the general character of the participating banks' business so as to require Board approval under the conditions of membership to which they were subject, and also that the requirements of the Bank Service Corporation Act and regulations issued thereunder, including the Board's Regulation S (Bank Service Arrangements), would be applicable. As

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indicated previously, the Legal Division did not share these views. Mr. Sanders also stated that Reserve Bank counsel had raised the question whether the plan would violate the antitrust laws. It was the Division's position that this consideration was beyond the scope of appropriate concern for the Board, since the Department of Justice was charged with responsibility for enforcing those statutes, and that the letter to the Reserve Bank should comment on the plan only within the context of Federal banking legislation.

The letter was thereupon approved unanimously for transmittal to the San Francisco Reserve Bank. A copy is attached as Item No. 9.

Mr. Sanders then inquired whether it was felt that the ruling should be made public as a published interpretation of the Board.

Governor Robertson stated that he would be opposed to issuing a published interpretation based on the pending inquiry, because to do so would only call attention to a means of circumventing the restrictions of section 5136 of the Revised Statutes. Until the Board had decided as a matter of policy whether it was appropriate for member State banks to establish operations subsidiaries and whether legislation should be recommended, he would advocate refraining from any pronouncement on the subject for public consumption.

Governor Brimmer concurred in this view, adding that the Board did not now have sufficient information at its command with respect to the long-run implications of bank credit card plans in particular to form

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a judgment on whether this was a desirable development. Therefore, he, too, would recommend against a published interpretation in the instant case.

It was agreed that no interpretation would be issued but that the substance of the letter should be sent to all Reserve Banks for their information.

In connection with this topic, Governor Brimmer expressed the view that the development of bank credit card plans had far-reaching implications, both from the economic standpoint and with respect to the country's banking structure. He believed that the Board should immediately take steps to have a comprehensive study made of the subject.

Governor Robertson concurred, and suggested that a group comprised of Board staff and counsel and economists from the Reserve Banks be formed to pursue the question in depth.

Governor Shepardson commented that a task force study of this matter would be highly desirable. He suggested that Governor Brimmer be designated to head up the project and to assemble a committee of Board and Reserve Bank staff for this purpose, and this suggestion was adopted.

New York State Dormitory Authority bonds (Item No. 10). On September 22, 1965, March 21, 1966, and April 7, 1966, the Board discussed a request from the Federal Reserve Bank of New York for a ruling that the 10 per cent investment limitation of section 5136, Revised Statutes, could be applied separately to New York State Dormitory

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Authority bonds issued for particular colleges, provided such bonds were actually repayable by the college. (The seventh paragraph of section 5136 limits the extent to which a national bank may invest in the obligations of one "obligor or maker" to 10 per cent of the bank's capital stock and surplus; section 9 of the Federal Reserve Act makes the limitation applicable to member State banks.)

The requested ruling involved the question whether the Dormitory Authority or the college itself was the obligor for the bonds. The Comptroller of the Currency had ruled that the limitation could be applied to the bonds of the individual colleges rather than to the aggregate issues of the Dormitory Authority, but the Board's Legal Division held the view that the Authority was the obligor and the limitation therefore must be applied to the collective issues.

At the April 7 discussion, a consensus developed that the threshold question to be resolved was whether the holders of the bonds were in effect relying primarily on the credit-worthiness of each particular college, with the Dormitory Authority serving merely as a conduit for payments of interest and principal upon maturity, albeit perhaps lending an additional element of security to the issues as a secondary source of payment. In this connection, it was felt essential that before attempting to resolve the issue additional information should be obtained from the Dormitory Authority regarding its resources and the extent to which bondholders were entitled to rely upon those resources rather than

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upon the particular college should the occasion arise. Accordingly, under date of May 13, 1966, a letter was directed to the Dormitory Authority requesting detailed information concerning its college financing program.

There had now been distributed a memorandum from the Legal Division dated October 21, 1966, summarizing the information contained in a letter of reply from the Dormitory Authority dated September 23, 1966, to the Board's May 13 request.

The memorandum concluded that, as a practical matter, the Authority served merely as a conduit for transmission of funds from another source, and therefore, legally, was not an "obligor" within the meaning of that term as used in section 5136, Revised Statutes, limiting bank investments in obligations of one obligor. From the facts elicited, it appeared that--

"Despite (1) the New York statutory provision that the Authority's obligations 'shall be general obligations payable out of any moneys or revenues of the authority', (2) the statement in bond resolutions in connection with obligations issued by the Authority that such obligations are supported by 'the full faith and credit of the Authority', (3) the inclusion in such obligations of an unqualified promise to pay by the Authority, (4) the elaborate statutory provisions for bondholder action against the trustee in the event of failure of the Authority to fulfill its promise, and (5) the statutory general borrowing power in the Authority, . . . a bank could not reasonably rely on any source for payment of the principal and interest on the Authority's obligations other than the particular college for which the obligations were issued."

Attached to the memorandum was a proposed form of interpretation, suitable for publication in the Federal Register and in the Federal

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Reserve Bulletin, that would construe the terms "obligor or maker" as used in section 5136, Revised Statutes, in light of the factual situation respecting issuance of New York State Dormitory Authority bonds, for the guidance of member banks in other situations where there might be some question whether funds for payment of an issue of bonds would come from a formal promisor.

The proposed interpretation was adopted, and its publication authorized. A copy of the interpretation, in the form transmitted to the Federal Register for publication, is attached as Item No. 10.

Mr. Sanders then withdrew from the meeting and Mrs. Sette, Chief, Economic Editing, and Miss McCaslin, Technical Editor, Division of Research and Statistics, entered the room.

Proposed revision of gold loan policy. There had been distributed a memorandum from Messrs. Young and Irvine dated October 24, 1966, reviewing the policy governing Federal Reserve System loans to foreign central banks and governments offering gold as collateral that had been adopted by the Board in December 1955, and proposing certain revisions in light of current circumstances. Attached to the memorandum were: (1) copy of a memorandum to the Board from the Division of International Finance dated September 15, 1955, proposing the policy adopted in December 1955; and (2) copy of a draft memorandum dated October 17, 1966, from Mr. Robert J. Crowley, Manager, Foreign Department of the Federal Reserve Bank of New York, to Mr. Bruce MacLaury, Assistant Vice President of that

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Bank, setting forth views on the questions (a) whether the interest rate on gold collateral loans should be the discount rate, the Treasury bill rate, or some other rate close to existing market rates, and (b) whether such loans should be approved automatically on the basis that they are a normal central banking operation in which there is no risk of loss.

The October 24 memorandum proposed two amendments to the existing text of the gold collateral loan policy statement (words to be deleted are in brackets; words to be added are underscored):

First: Amend section A.(2) as follows--

"[In exceptional circumstances only,] loans or commitments therefor may be made for other purposes, as, for example, to assist in persuading a country to adopt sounder policies or to support implementation of a program intended to eliminate major balance-of-payments difficulties arising from internal financial or monetary disturbances or from basic maladjustments in the economy."

Second: Amend section B.(2) as follows--

"The interest rate on a loan against gold of three months or less should, as a general rule, be the discount rate of the operating bank in effect at the time of the making or the renewing of the loan, as long as this rate is reasonably representative of the cost of money in the New York market. Should this not be the case, the interest rate should be set at the rate on three-month Treasury bills at the time of the making or renewing of the loan, whichever is higher."

In addition, it was recommended that the following declaration be written into the policy statement:

"Ordinarily, the System will not make loans against gold to the central bank of a country that is in default on any official obligation to any agency of the U. S. Government or to any international lending agency of which the U. S. is a member, such as the International Bank for Reconstruction and Development, the International Monetary Fund, the Inter-American Development Bank and the Asian Development Bank, unless the defaulter has made a commitment to negotiate a settlement that is satisfactory to the lender."

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Following explanatory comments by Mr. Irvine and expression of tentative views on the proposals by several members of the Board, Chairman Martin suggested that it might be well to defer further consideration of this matter until a time when all members of the Board were present. Accordingly, the subject was deferred until a later date.

Gold collateral loan agreement with the Bank for International Settlements (Item No. 11). There had been distributed a memorandum from Mr. Young dated October 24, 1966, stating that the Board of Directors of the Federal Reserve Bank of New York had authorized, subject to approval by the Board of Governors, a one-year extension of the \$25 million gold loan arrangement to the Bank for International Settlements. This arrangement had been renewed annually for a number of years.

The arrangement provided that during a one-year period beginning on November 1, 1966, the Bank for International Settlements would be authorized to borrow against gold collateral amounts up to a maximum of \$25 million for periods not in excess of seven days. Total borrowings during any calendar month could not exceed the equivalent of \$25 million for a total of seven days. The New York Reserve Bank would make a commitment charge of 1/4 of one per cent per annum on that part of the maximum loan facility not used in any calendar month.

The memorandum stated that the Bank for International Settlements had found this facility useful in meeting very short-term needs for dollars occasioned by late-in-the-day demands from central banks that maintained

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deposits with it. The Bank typically repaid the loans within one or two days, and use of this facility had increased considerably in the last few years. In the year ending March 31, 1966, it had made 28 loans that totaled \$270 million. (The maximum possible would have been \$300 million.) In the previous year loans totaled \$180 million, and in the 1960-64 period, they had averaged around \$100 million.

It was understood that, in advising the Bank for International Settlements of the System's willingness to renew the gold loan arrangement for another year, the Bank would be requested to use its swap facility with the Federal Reserve rather than gold loans to meet cash requirements when possible. Drawings under the swap facility would involve an interest payment at the three-month Treasury bill rate and would avoid any impact on the U.S. balance of payments. In addition, the Bank would be specifically requested not to use the gold loan facility over quarter-ends because of its temporary adverse impact on the U.S. balance of payments.

The New York Reserve Bank had recommended that the interest rate applicable to any gold loans made under the proposed authorization be at the discount rate of the New York Reserve Bank prevailing when the loan was made. However, the memorandum stated that it would appear more appropriate at the present time to set the rate for this and other gold loans at the rate on three-month Treasury bills or the discount rate of the Federal Reserve Bank of New York, whichever was higher. Accordingly,

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Mr. Young recommended that the Board approve the loan agreement on the terms and conditions described in the New York Reserve Bank's request for approval, except that the interest rate provision should embody the alternative method of determination specified above. A draft of telegram to this effect was attached.

Governor Brimmer commented that while he was prepared to accept the proposal to extend the loan agreement for another year, he was opposed to the suggestion for tying the interest rate on borrowings thereunder to the Treasury bill rate. In his opinion, to do so would inject into central banking decisions a consideration foreign to the traditional manner of determining the interest rate on lendings; in transactions such as this the prevailing central bank discount rate should determine the terms on which loans are negotiated. He commented that while at the present time market rates were above the discount rate, the Board should look beyond the immediate situation to the future and not embalm into gold loan procedures an interest rate formula predicated upon transitory circumstances. In this connection, he saw a clear distinction between the criterion for setting interest rates under foreign currency "swap" agreements and the appropriate interest rate criterion under gold collateral loan arrangements; the former was essentially a market transaction, and therefore there was justification for using a rate reflecting market conditions.

Chairman Martin commented that since the proposals for amending the policy statement regarding gold collateral loans included one regarding

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the method of determining the interest rate, and in consideration of the fact that a decision on these proposals had been deferred, he would be inclined to authorize extension of the Bank for International Settlements agreement on the basis of the presently existing policy.

It was agreed that this would be the most satisfactory course of action, and the New York Reserve Bank was authorized to conclude the agreement on the terms proposed in its request. A copy of the telegram advising the New York Reserve Bank of the Board's action is attached as Item No. 11.

Messrs. Hexter, Shay, Leavitt, and Irvine then withdrew from the meeting.

Procedures for clearing staff publications. There had been distributed a memorandum from the Editorial Committee dated October 24, 1966, proposing that procedures be established for clearing certain types of pamphlets prepared by members of the Board's staff for publication by the Board. It was suggested that a subcommittee of the Editorial Committee be created, to have responsibility for clearing all pamphlets for which no clearing procedures presently existed.

The proposed subcommittee would be responsible for certifying that various manuscripts were competently handled and that they were deserving of and suitable for publication. The Editorial Committee would set the general standards to guide the subcommittee in reviewing the manuscripts. Members of the subcommittee would be rotated, depending

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on the subject area covered, and as a rule at least one or possibly two members of the Editorial Committee would be included.

The following procedure for subcommittee review was proposed:

"(a) Each manuscript--after the initial editing and clearance by the Section Head and/or the Adviser in charge--would be reviewed by an Editorial subcommittee. The subcommittee would consist of (i) the Division Head or an Adviser to the Board who is a specialist in the field (domestic or international); (ii) the Chairman of the Editorial Committee (Mr. Molony, or an alternate); (iii) Mrs. Sette (or an alternate in editing and managing); and (iv) for Pamphlet Staff Economic Studies only, one of the readers on the ad hoc committee.

"A memo requesting approval to print would be sent to the Board as soon as the subcommittee had cleared the manuscript. This memo would indicate the clearance and the facts of publication; it would be routed through the Controller's office.

"(b) The galley would be reviewed by the full Editorial Committee, if it so desires. (Presumably the galley of Pamphlet Staff Economic Studies would be sent to the ad hoc committee reader too.)"

The memorandum concluded with the observation that authorization to establish the subcommittee and follow the foregoing review procedure would help reduce the workload among the research members of the Editorial Committee and would expedite publications.

Following an observation by Governor Robertson that he hoped the recommended review procedures would be coupled with continuing efforts to encourage more members of the Board staff to write material for publication, establishment of the subcommittee and implementation of the clearance procedure set forth above was authorized.

Messrs. Molony, Cardon, and Sammons, Mrs. Sette, and Miss McCaslin then withdrew from the meeting.

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Public Bank matter. Mr. Hackley reported that a request had been received from the Michigan Commissioner of Banking for a listing of the dates and amounts of advances made to Public Bank, Detroit, Michigan, by the Detroit Branch of the Federal Reserve Bank of Chicago, along with certain related information. These advances had been made to Public Bank, a nonmember insured institution, during the period August 26 through October 10, 1966, at the request of the Federal Deposit Insurance Corporation, in an effort to forestall the bank's insolvency pending consummation of a proposed merger with Bank of the Commonwealth, also in Detroit.

On October 11, Public Bank was placed in receivership by order of the Circuit Court for the County of Wayne, pursuant to a petition filed on behalf of the Michigan Commissioner of Banking, and the Federal Deposit Insurance Corporation, as receiver, arranged a purchase of assets and assumption of liabilities of Public Bank by Bank of the Commonwealth.

Thereafter, a group of Public Bank's stockholders instituted suit to have the receivership proceeding declared invalid, and in this connection members of the staff of the Michigan Commissioner of Banking had been called upon to testify.

The information requested concerning advances that had been made to Public Bank by the Detroit Branch was intended for use in preparing these persons for their testimony, with a view to having all pertinent facts at hand.

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Mr. Hackley observed that this information was available on the ledger sheets of Public Bank, and therefore he could see no objection to furnishing the information requested.

Release of the information was thereupon authorized, with the understanding that appropriate advice of this fact would be transmitted to the Federal Reserve Bank of Chicago.

All members of the staff except Messrs. Kenyon, Bakke, Fauver, and Morgan then withdrew from the meeting.

Director appointments. Following discussion, it was agreed to ascertain through the Chairman of the Chicago Reserve Bank whether Emerson G. Higdon, President of The Maytag Company, Newton, Iowa, would accept appointment, if tendered, as a Class C director of that Bank for the three-year term beginning January 1, 1967, with the understanding that if it were found he would accept, the appointment would be made.

Secretary's Note: It having been ascertained that Mr. Higdon would accept the appointment if tendered, an appointment wire was sent to him on October 28, 1966.

It was agreed to appoint Elvis J. Stahr, Jr., President of Indiana University, Bloomington, Indiana, as Deputy Chairman of the Chicago Reserve Bank for the year 1967.

The meeting then adjourned.

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

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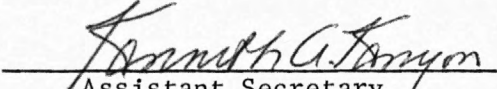
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Appointment

Rose C. Noonan as Secretary, Office of the Secretary, with basic annual salary at the rate of \$5,683, effective November 28, 1966.

Transfer

Kathryn A. Morisse, from the position of Economist in the Division of Research and Statistics to the position of Economist in the Division of International Finance, with no change in basic annual salary at the rate of \$8,479, effective upon assuming her new duties.


Assistant Secretary

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**BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM**

WASHINGTON, D. C. 20551

Item No. 1
10/26/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 26, 1966

Board of Directors,
Manufacturers Hanover Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to February 14, 1967, the time within which Manufacturers Hanover Trust Company, New York, New York, may establish a branch at 111-121 William Street, New York, New York.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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**BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM**

WASHINGTON, D. C. 20551

Item No. 2
10/26/66



**ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD**

October 26, 1966

Board of Directors,
The Bank of Virginia,
Richmond, Virginia.

Gentlemen:

The Board of Governors of the Federal Reserve System has approved an extension to September 1, 1967, of the time within which The Bank of Virginia, Richmond, Virginia, may establish a branch at 6922 Lakeside Avenue in Henrico County, Virginia.

The Board understands plans to strengthen your bank's capital position are being formulated.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

Item No. 3
10/26/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 26, 1966

The Honorable K. A. Randall, Chairman,
Federal Deposit Insurance Corporation,
Washington, D. C. 20429

Dear Mr. Randall:

Reference is made to your letter of October 18, 1966, concerning the application of Charlevoix County State Bank, Charlevoix, Michigan, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

There have been no corrective programs urged upon the bank, or agreed to by it, which have not been fully consummated, and there are no programs that the Board would advise be incorporated as conditions of admitting the bank to membership in the Corporation as a nonmember of the Federal Reserve System.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

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

Item No. 4
10/26/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 26, 1966.

Mr. William J. Korsvik,
Assistant Secretary,
Federal Advisory Council,
c/o The First National Bank of Chicago,
Chicago, Illinois. 60690

Dear Bill:

The Board of Governors suggests the topics shown on the attached list for discussion at the meeting of the Federal Advisory Council on November 14, 1966, and the joint meeting of the Board and the Council on November 15. The other arrangements requested in your letter of October 17 are being made.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Ken", written over a light-colored background.

Kenneth A. Kenyon,
Assistant Secretary.

Enclosure

Suggested Topics for Discussion at Meeting of
Federal Advisory Council on November 14-15, 1966

1. Economic conditions and prospects.
 - A. How does the Council appraise the general economic outlook for the remainder of 1966 and the year 1967?
 - B. Do Council members have the impression, from information received by bank loan officers, that any significant number of firms have been cutting back on actual or planned capital expenditures and inventories because of stringent bank lending terms or tight credit conditions in general? Because of the temporary suspension of the investment tax credit and accelerated depreciation allowances?
 - C. In the judgment of Council members, have the reductions in housing starts in their respective regions resulted primarily from the reduced flows of funds into mortgage markets through nonbank depository institutions and life insurance companies, or has there also been some significant weakening in the demand for housing for other reasons?
2. Banking developments.
 - A. How strong does the Council expect business loan demand to be over the remainder of 1966? Does the recent slackening in growth of business loans at banks primarily reflect bank lending policies, or is there also evidence of some moderation of demands? If the latter, is the moderation due mainly to a less expansive outlook for sales, or to earlier anticipatory borrowing?
 - B. What does the Council foresee as to the ability and willingness of banks in coming months to attract time deposits through large and small-denomination CD's? Do banks expect their main competition for time-deposit funds to come from other depository institutions or from market instruments?
3. Balance of payments.
 - A. How strong and widespread are current foreign demands for term loans, short-term loans, and acceptance credits from U.S. banks? Have such demands shown recent signs of changing significantly?

- B. Have Council members observed any significant changes in recent months in foreign attitudes towards maintaining deposits in banks in the United States and/or in the foreign branches of U.S. banks?
 - C. Does corporate liquidity, or lack of liquidity, seem to be a factor now influencing corporate decisions to finance direct investments abroad by borrowing abroad?
4. What are the Council's views on monetary and credit policy under current circumstances?

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5
10/26/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 26, 1966



AIR MAIL

Mr. Darryl R. Francis, President,
Federal Reserve Bank of St. Louis,
P. O. Box 442,
St. Louis, Missouri. 63166

Dear Mr. Francis:

The Board of Governors approves the payment of salary to Mr. John W. Druelinger as an Assistant Cashier of the Federal Reserve Bank of St. Louis, assigned to the Little Rock Branch, at the rate of \$12,500 per annum for the period October 16 through December 31, 1966. This is the rate fixed by your Board of Directors as reported in your letter of October 14.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Item No. 6
10/26/66

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

In the Matter of the Applications of
THE FIRST NATIONAL BANK OF TAMPA and
UNION SECURITY & INVESTMENT COMPANY
for approval of the acquisition of voting
stock of First National Bank of Brooksville,
Brooksville, Florida.

ORDER APPROVING APPLICATIONS UNDER
BANK HOLDING COMPANY ACT

There has come before the Board of Governors, pursuant to section 3(a) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(a), as amended by Public Law 89-485), and section 222.4(a) of Federal Reserve Regulation Y (12 CFR 222.4(a)), applications on behalf of The First National Bank of Tampa and Union Security & Investment Company, both registered bank holding companies located in Tampa, Florida, for the Board's approval of the acquisition by Union Security & Investment Company of 55 per cent of the 20,000 voting shares to be issued by First National Bank of Brooksville, Brooksville, Florida, a proposed new bank.

As required by section 3(b) of the Act, the Board notified the Comptroller of the Currency of receipt of the applications and requested

his views and recommendation. The Comptroller recommended approval of the applications.

Notice of receipt of the applications was published in the Federal Register on August 11, 1966 (31 Federal Register 10704), which provided an opportunity for submission of comments and views regarding the proposed acquisition. Time for filing such comments and views has expired and all those filed with the Board have been considered by it.

IT IS ORDERED, for the reasons set forth in the Board's Statement of this date, that said applications be and hereby are approved, provided that the acquisition so approved 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, and provided further that the First National Bank of Brooksville shall be opened for business not later than six months after said date.

Dated at Washington, D. C., this 26th day of October, 1966.

By order of the Board of Governors.

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

Absent and not voting: Governors Daane and Maisel.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

(SEAL)

Item No. 7
10/26/66

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

APPLICATIONS BY THE FIRST NATIONAL BANK OF TAMPA AND UNION
SECURITY & INVESTMENT COMPANY FOR APPROVAL OF ACQUISITION
OF SHARES OF FIRST NATIONAL BANK OF BROOKSVILLE,
A PROPOSED NEW BANK

STATEMENT

The First National Bank of Tampa ("First National") and Union Security & Investment Company ("US & I"), both of which are registered bank holding companies located in Tampa, Florida, have filed with the Board, pursuant to section 3(a) of the Bank Holding Company Act of 1956, as amended ("the Act"), applications for approval of the acquisition of 55 per cent of the voting shares to be issued by First National Bank of Brooksville, Brooksville, Florida ("Bank"), a proposed new bank. (First National and US & I are referred to collectively herein as "Applicants".)

US & I, a majority of the stock of which is trusted for the benefit of the shareholders of First National, owns controlling stock of Broadway National Bank of Tampa and Second National Bank of Tampa. At December 31, 1965,^{1/} the three banks in the group had total deposits aggregating about \$197 million. Bank, a proposed new institution which will be located about 45 miles north of Tampa, is expected to have deposits of \$5 million after three years of operation.

^{1/} Unless otherwise indicated, all banking data noted are as of this date.

Views and recommendation of supervisory authority. - As required by section 3(b) of the Act, notice of receipt of the applications was given to, and views and recommendation requested of, the Comptroller of the Currency. The Comptroller recommended approval of the applications.

Statutory considerations. - The Act prohibits Board approval of any proposed acquisition which would result in a monopoly, or further any combination, conspiracy, or attempt to monopolize the business of banking in any relevant area. Nor may approval be given where the Board finds that the effect of a proposal may be substantially to lessen competition, or in any other manner be in restraint of trade, unless such anticompetitive effects are clearly outweighed by the probable effect of the transaction in meeting the convenience and needs of the area to be served. The Board is also required to consider the financial and managerial resources and future prospects of the bank holding company and banks concerned, and the convenience and needs of the communities to be served.

Competitive effects of proposed acquisition. - There are eight bank holding company groups either operating, or approved by the Board to commence operations, in the State of Florida. Combined, they control 71 banks, or 16 per cent of the banks in the State, and they hold about \$2 billion of deposits, representing 26 per cent of the deposits of all banks in the State. Applicants' holding company system controls less than 3 per cent of the total deposits in the State.

First National's service area includes generally all of Hillsborough County. The service areas of the Applicants' two subsidiary banks lie wholly

within Hillsborough County. Applicants' group represents 3 of 24 banks in Hillsborough County, and controls about 32 per cent of the total deposits of those banks. Although the proportion of deposits in the County which are under control of the Applicants is significant, the degree of concentration in that area would not be increased by the proposed acquisition inasmuch as Bank will be located some distance away, in Hernando County.

Hernando County is located to the north of Hillsborough County, and is separated from Hillsborough County by Pasco County. There are four banks presently located in Pasco County and only one bank in Hernando County, Hernando State Bank at Brooksville, which has deposits of about \$11 million. There is also a savings and loan association located in Brooksville.

Applicants propose to establish and acquire control of a new bank in an area where no holding companies are presently represented; and since there is some distance separating Bank's location from Applicants' existing subsidiaries, it is the Board's judgment that the transaction proposed would not result in a monopoly, nor does it appear to be in furtherance of any combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any relevant area.

Since the proposal involves the acquisition of a new bank, no existing competition will be eliminated. Nor is there a likelihood that any significant potential competition will be foreclosed between Bank and Applicants' other subsidiaries as a result of the proposal. As before noted, Bank will be located about 45 miles from Tampa and outside the primary

service areas of Applicants' banks. First National is the only one of the group's banks which derives deposits or loans from Hernando County. Such business, whether related to First National's total deposits and loans held, or to such held by Bank, is insignificant in number or amount. It is not anticipated by Applicants, nor does it appear likely in the judgment of the Board, that Bank will derive any significant amount of business from the Tampa area. On the basis of the foregoing, it is concluded that consummation of the proposal would have no significant effect on present or potential competition between the proposed new bank and the banks now comprising Applicants' group.

Referring now to the probable competitive effect on the only existing bank in Hernando County, Hernando State Bank, Brooksville, it is noted that the county has a population of nearly 13,000. The two neighboring counties of Citrus and Sumter, with respective populations of about 12,000 and 14,000, each has two banks. Pasco County, which adjoins Hernando County to the south, has four banks and a population of 40,300. The establishment of Bank in Hernando County will, in the Board's judgment, prove beneficial in that it will introduce into that County an added source of banking service, and healthy competition for Hernando State Bank, a well-established institution with \$11 million of deposits and of adequate size to compete effectively with the proposed new bank. In this regard, the president of Hernando State Bank submitted a written statement in opposition to Applicants' establishment and control of Bank, stating that Hernando State Bank would have no objection to local ownership and operation

of Bank, but that it objected to the "adverse competitive position in which our bank [Hernando State] will be placed in competing with First National Bank of Tampa and its affiliates." The Board recognizes that Bank, as a subsidiary of Applicants' system, will probably exert a stronger competitive force initially than would a completely independent new bank. However, when considering that Tampa is 45 miles away, that Applicants' banks compete principally with more than 20 other banks in Hillsborough County, and that there are four banks located in Pasco County, which separates Hillsborough County from Hernando County, the Board concludes that the establishment of Bank in Brooksville, as proposed, would not be inimical to the competitive position of Hernando State Bank. There appear to be no other banks in sufficiently close proximity to Bank's proposed site as to be affected competitively to any measurable extent by the proposed establishment and operation of Bank.

It is the Board's judgment, based on the foregoing considerations, that Applicants' acquisition of Bank will not tend substantially to lessen competition nor will it in any other manner be in restraint of trade.

Financial and managerial resources and future prospects. -

Although Applicants' bank holding company system has been in operation only since mid-1964, US & I and each of the group's banks have been in existence for a number of years. The financial resources of Applicants and their subsidiary banks are satisfactory and, on the basis of their past operations records, their prospects are viewed as favorable. Management of US & I is drawn from the management staff of First National and, with respect to both companies, is considered to be capable and experienced. Managements of the subsidiary banks are considered similarly satisfactory.

The pro forma financial condition of Bank is regarded as satisfactory and its prospects, viewed in light of the satisfactory economic prospects for the area it will serve, are considered favorable. The Board finds reasonable Applicant's position that consummation of the Proposed acquisition will assure the placement in Bank of experienced and well-trained management.

The Board finds the "banking factors" to be consistent with approval of the application.

Convenience and needs of the area to be served. - Bank's designated primary service area includes all of Hernando County. Hernando County, which is situated north of Tampa on the Gulf Coast, has a population of nearly 13,000 - about double its 1950 population. Total employment in the county has increased moderately in recent years, with more than 30 per cent of the total labor force being engaged in mining activities. Personal income in Hernando County is reported to have nearly doubled between 1956 and 1964, although per capita income is still below the State average. A major portion of the County's income is derived from mining, agriculture, and fisheries. While the economy of Hernando County should continue its relatively moderate growth in the immediate future, the geographic expansion of the Tampa-St. Petersburg Metropolitan Area is expected to have, at a later date, a significantly favorable effect on the economy of Hernando County.

As earlier noted, Hernando State Bank is presently the only bank located in Hernando County. Applicants do not propose that Bank will provide services of a scope or nature different than those generally available

in Bank's service area either through Hernando State Bank or other banks located in surrounding counties. However, Bank's establishment as an affiliate of Applicants will make available to the public, more immediately and more certainly than would be the case were Bank to be independently established, an alternative source of modern banking services and facilities.

Although there is no evidence in the record that major banking needs in Hernando County are going unserved or are being inadequately served, it is the Board's judgment that the installation of another banking facility in the county will prove beneficial to the convenience and needs of certain of the area's businesses and residents. It is therefore concluded that considerations relating to the convenience and needs of the area to be served provide some support for approval of the applications.

Summary and conclusion. - On the basis of the record before it, the Board concludes that the acquisition of control of Bank by Applicants will not have any significant adverse competitive consequences, and that considerations relating to the financial and managerial resources and prospects of Applicants and Bank, and to the convenience and needs of the area to be served, are consistent with approval of the applications, and in certain respects provide affirmative support for such approval.

In light of the factors set forth in the Bank Holding Company Act, and on the basis of the evidence of record, it is the Board's judgment that the proposed acquisition is in the public interest and that the applications should be approved.

October 26, 1966.

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

Item No. 8
10/26/66



OFFICE OF THE CHAIRMAN

November 7, 1966

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

Dear Mr. Chairman:

This is in response to your letter of August 23, 1966,
with respect to Board action to implement Public Law 88-593.

As was indicated in the Board's 1964 Annual Report to the Congress, steps were taken promptly to implement the provisions of Public Law 88-593 (enacted September 12, 1964) which requires that the appropriate Federal bank supervisory authority be notified of changes in control of insured banks, of management changes occurring within one year following a change of control, and of loans granted by insured banks secured by 25 per cent or more of the stock of an insured bank. On September 18, 1964, the Board, in conjunction with simultaneous action by the Federal Deposit Insurance Corporation, sent to the chief executive officer of all insured banks a copy of the Act and a statement regarding the provisions of the new legislation and the procedures to be followed in submitting the required reports. Arrangements among the three Federal supervisory agencies were subsequently made whereby copies of reports are exchanged in accordance with the provisions of the Act. The Reserve Banks provide copies of all reports received by them to the appropriate district office of the Corporation, the Regional Comptroller of the Currency, and the State bank supervisor.

Upon receipt of reports involving changes in control of State member banks, the Reserve Banks are under instructions to forward such reports promptly to the Board, together with a statement that the new owner and management are known and acceptable to the Reserve Bank or that they are not known and an investigation

The Honorable Wright Patman

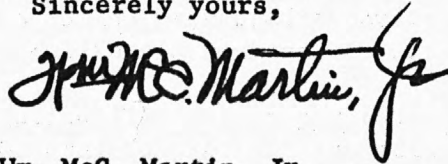
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is being made. The findings of any investigation and the Reserve Bank's conclusions based on such findings are forwarded to the Board. The investigations made by the Reserve Banks have disclosed no instance where failure or serious deterioration in a bank's condition could be expected to result from the change in control reported.

During the approximately two year period since enactment of Public Law 88-593, the Reserve Banks have forwarded copies of 120 reports to the Board's offices pertaining to changes in control of State member banks or to loans secured by stock of a State member bank.

A list is enclosed, showing the banks whose stock was reported to have been transferred or pledged, their deposits, and the names of the transferees, beneficial owners, borrowers, and lending banks involved.

Sincerely yours,

A handwritten signature in cursive script that reads "Wm. McC. Martin, Jr." with a flourish at the end.

Wm. McC. Martin, Jr.

Enclosure.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 9
10/26/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

October 27, 1966

Mr. Eliot J. Swan, President,
Federal Reserve Bank of San Francisco,
San Francisco, California. 94120

Dear Mr. Swan:

This refers to your letters of September 8 and 30, and October 12, 1966, relating to a proposal by Bank of California, Crocker-Citizens National Bank, United California Bank, and Wells Fargo Bank to establish and operate a common bank credit card plan through a "clearing house" called the California Bankcard Association.

It appears that the Association (1) is incorporated without capital stock under the California General Nonprofit Corporation Law (Corporations Code, Title 1, Division 2, Part 1); (2) is open for membership by other California commercial banks; (3) will perform certain functions required for the operation of the plan, including credit information, sales audit, card security control, merchant directory preparation, and advertising; and (4) will be supported solely by charges against members assessed in a manner to liquidate its total operating expenses.

Although the plan involves a new procedure for the extension of consumer credit by a participating bank, the Board does not consider that it involves a change in the general character of such bank's business. Accordingly, participation in the plan by a member bank without the approval of the Board would not violate the condition of membership in the Federal Reserve System directed against such changes without Board approval (see 12 CFR 208.7(a)(1)).

Because the Association will have no stock and no bank may otherwise "invest" therein "by making a loan or otherwise, except a payment for rent earned, goods sold and delivered, or services rendered prior to the making of such payment", the provisions of the Bank Service Corporation Act (12 U.S.C. 1861 ff.) are considered inapplicable. The limitations imposed on bank investment in securities and stock by

Mr. Eliot J. Swan

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Paragraph Seventh of section 5136 of the United States Revised Statutes (12 U.S.C. 24) are also considered inapplicable.

In conclusion, from the information submitted, action by the Board is not required as a condition to establishment and operation of the plan, and it does not appear that participation in the plan by a member State bank would be restricted by any of the provisions of the Federal banking statutes applicable to such banks.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

TITLE 12 - BANKS AND BANKING

Item No. 10

CHAPTER II - FEDERAL RESERVE SYSTEM

10/26/66

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. H]

PART 208 - MEMBERSHIP OF STATE BANKING INSTITUTIONS
IN THE FEDERAL RESERVE SYSTEM

Investments in Securities

§ 208.120 Meaning of "obligor or maker" in determining limitation
on securities investments by member State banks.

(a) From time to time the New York State Dormitory Authority offers issues of bonds with respect to each of which a different educational institution enters into an agreement to make "rental" payments to the Authority sufficient to cover interest and principal thereon when due. The Board of Governors of the Federal Reserve System has been asked whether a member State bank may invest up to 10 per cent of its capital and surplus in each such issue.

(b) Paragraph Seventh of section 5136 of the United States Revised Statutes (12 U.S.C. 24) provides that "In no event shall the total amount of the investment securities of any one obligor or maker, held by [a national bank] for its own account, exceed at any time 10 per centum of its capital stock ... and surplus fund". That limitation is made applicable to member State banks by the twentieth paragraph of section 9 of the Federal Reserve Act (12 U.S.C. 335).

(c) The Board considers that, within the meaning of these provisions of law, "obligor" does not include any person that acts

solely as a conduit for transmission of funds received from another source, irrespective of a promise by such person to pay principal or interest on the obligation. While an obligor does not cease to be such merely because a third person has agreed to pay the obligor amounts sufficient to cover principal and interest on the obligations when due, a person that promises to pay an obligation, but as a practical matter has no resources with which to assume payment of the obligation except the amounts received from such third person, is not an "obligor" within the meaning of section 5136.

(d) Review of the New York Dormitory Authority Act (N. Y. Public Authorities Law §§ 1675-1690), the Authority's interpretation thereof, and materials with respect to the Authority's "Revenue Bonds, Mills College of Education Issue, Series A" indicates that the Authority is not an "obligor" on those and similar bonds. Although the Authority promises to make all payments of principal and interest, a bank that invests in such bonds cannot be reasonably considered as doing so in reliance on the promise and responsibility of the Authority. Despite the Authority's obligation to make payments on the bonds, if the particular college fails to perform its agreement to make rental payments to the Authority sufficient to cover all payments of bond principal and interest when due, as a practical matter the sole source of funds for payments to the bondholder is the particular college. The Authority has general borrowing power but no resources from which to assure repayment of any borrowing except from the particular colleges, and rentals

received from one college may not be used to service bonds issued for another.

(e) Accordingly, the Board has concluded that each college for which the Authority issues obligations is the sole "obligor" thereon. A member State bank may therefore invest an amount up to 10 per cent of its capital and surplus in the bonds of a particular college that are eligible investments under the Investment Securities Regulation of the Comptroller of the Currency (12 CFR 1), whether issued directly or indirectly through the Dormitory Authority.

(12 U.S.C. 248(1). Interprets 12 U.S.C. 24 and 335.)

Dated at Washington, D. C., this 26th day of October, 1966.

By order of the Board of Governors.

(SEAL)

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

T E L E G R A M
LEASED WIRE SERVICE**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**
WASHINGTON

October 26, 1966

MAC LAURY - NEW YORK

Board approves granting loan or loans on gold up to a total of \$25 million by the Federal Reserve Bank of New York to the Bank for International Settlements on the terms described in your wire of October 20, and subject to the conditions outlined.

(Signed) Kenneth A. Kenyon

KENYON