

Minutes for December 22, 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 Thursday, December 22, 1966. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Robertson, Vice Chairman
Mr. Shepardson
Mr. Mitchell
Mr. Daane
Mr. Maisel
Mr. Brimmer

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Bakke, Assistant Secretary
Mr. Young, Senior 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. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Koch, Deputy Director, Division of Research and Statistics
Mr. Partee, Associate Director, Division of Research and Statistics
Mr. Axilrod, Associate Adviser, Division of Research and Statistics
Mr. Sammons, Associate Director, Division of International Finance
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Dahl, Assistant Director, Division of Examinations
Mr. Staiger, Assistant Director, Division of Data Processing
Miss Wolcott, Technical Assistant, Office of the Secretary
Messrs. Cloth and Via of the Legal Division
Messrs. Eckert and Keir of the Division of Research and Statistics
Messrs. Egertson and Goodfellow of the Division of Examinations
Messrs. Vander Noot and Veenstra of the Division of Data Processing

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Approved items. The following items were approved unanimously after consideration of background information that had been made available to the Board. Copies are attached under the respective numbers indicated.

	<u>Item No.</u>
Letter to The Louisville Trust Company, Louisville, Kentucky, approving the establishment of a branch in Jefferson County.	1
Letter to Chase International Investment Corporation, New York, New York, modifying the Board's letter of September 21, 1966, and granting permission for the Corporation, either directly or through its wholly-owned subsidiary, Arcturus Investment and Development, Limited, Montreal, Canada, to purchase additional shares of Liga Financiera, S.A., Madrid, Spain.	2
Letter to the New York Stock Exchange authorizing discontinuance, as of the last Wednesday of December 1966, of the monthly report (MF-4) on borrowings of member firms carrying margin accounts.	3
Letter to the Federal Reserve Bank of Philadelphia approving a revision of the Bank's salary structure applicable to employees.	4

Application of Security Bank (Items 5 and 6). There had been distributed drafts of an order and statement reflecting the Board's approval on December 12, 1966, of the application of Security Bank, Webster, South Dakota, to merge with Farmers and Merchants State Bank, Roslyn, South Dakota.

The issuance of the order and statement was authorized. Copies of the documents as issued are attached as Items 5 and 6.

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Time and savings deposit survey (Item No. 7). There had been distributed a memorandum dated December 21, 1966, from the Division of Research and Statistics recommending that a new survey of interest rates paid at all member banks on time and savings deposits be initiated as of the end of January 1967. It was proposed that at least three quarterly surveys be conducted; consideration would then be given to the question of frequency of further surveys. The proposal reflected recommendations of a subcommittee of the System Research Advisory Committee, which recommendations were approved by that Committee, and then by the Committee on Research and Statistics of the Conference of Presidents at its meeting on December 12, 1966. It was contemplated that similar surveys would be conducted by the Federal Deposit Insurance Corporation for nonmember insured banks and mutual savings banks and by the Federal Home Loan Bank Board for insured savings and loan associations. Attached to the memorandum was a proposed letter to the Presidents of all Federal Reserve Banks relating to the new series.

In commenting on the proposal Mr. Eckert indicated that for effective administration of rate ceiling regulations, as well as for analytical purposes, there was a continuing need for up-to-date information on time and savings deposit rates, terms, and balances. In addition, current data would be essential in the preparation of testimony for anticipated Congressional hearings that probably would be held early next year in connection with possible extension of the rate ceiling

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legislation enacted in September 1966. The proposed questionnaire would collect much the same information as that obtained in the joint survey made by the Federal Reserve and the Federal Deposit Insurance Corporation last May, with certain modifications to remedy inadequacies of the earlier survey and to take account of subsequent rate ceiling actions. Universe coverage was again recommended so as to provide maximum flexibility for obtaining definitive answers to whatever questions might arise in the course of hearings and in the determination of System policy. While it might be possible to obtain reasonably reliable data relating to most prospective policy issues through sampling, such a course was not recommended at this time.

Governor Maisel expressed the view that the May survey had had significant informational gaps in it and noted that the proposed survey would not fill those gaps. The proposed survey again would request information only on the highest rate offered by the respondent institution and the most common rate. In his view, the survey should seek to determine the volume of deposits outstanding at various rate levels if the results were to provide answers to policy questions likely to be asked, such as, for example, what deposit losses were indicated for various categories of savings institutions if rates were rolled back by a certain amount.

Governor Mitchell observed that it was proposed to send the survey questionnaire to every bank in the United States, whereas half

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of the banks held only a small percentage of total time and savings deposits. If the questionnaire were sent to about 2,200 banks, that would provide about 80 per cent deposit coverage. Also, he felt that it was as important to obtain information on gross flows as on rates paid. Whether those two objectives could be married, he did not know. But his inclination was to reject the present proposal and try to develop a survey covering an adequate sample of banks in an effort to obtain information on flows along with rate information. In his opinion, the proposed survey would not improve the Board's knowledge to any useful extent.

Governor Maisel suggested that universe coverage might be justified from the standpoint of determining the number and distribution of banks that would be affected by a change in rate ceilings, regardless of size of bank, while Governor Mitchell questioned the necessity, from an analytical standpoint, of seeking information from a large number of small banks. He pointed out that the larger banks should be in a position to furnish meaningful information more easily due to automated operating procedures.

Governor Brimmer noted that there had not been sufficient time between distribution of the staff recommendation and this morning's meeting to study carefully the underlying problems relating to the survey. He observed that the questions presented today by members of the Board were similar to those that had been raised when the May 1966

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survey was being prepared. The question of a sampling technique apparently had been given some consideration by the subcommittee, as indicated in the December 21 memorandum, but it was not clear why the subcommittee had not devoted more time to solving the problems involved instead of simply rejecting that alternative. As to the usefulness of the proposed survey for policy purposes, he felt that the idea of a series of surveys was good, but there remained the question whether the kind of data obtained would be particularly helpful in reaching policy judgments. With the first survey scheduled to be conducted as of January 31, 1967, and an early need for data foreseen, it appeared that there might be no practical alternative to proceeding with a survey along the lines proposed by the staff. But it was his opinion that the staff should devote further attention to the development of a sophisticated sampling procedure, to the question of obtaining information on flows, and to the feasibility of developing information such as Governor Maisel had mentioned.

With respect to the question raised by Governor Maisel, members of the staff pointed out that it was necessary to bear in mind the cost to respondents of providing information on deposits outstanding at particular rates, and a number of comments were made on the amount of work that would appear to be required in reporting data of that character. Some doubt was expressed as to whether estimates would produce data of sufficient statistical reliability. If not, the question was whether

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the agencies would be justified in asking respondent institutions to search their files at an expenditure of considerable time and effort.

On the question of a sampling technique, comment was made that one reason arguing in favor of universe coverage was that some variation in ceiling rates still prevailed on a geographical basis, which meant that policy questions might arise that it would be difficult to answer without having geographical data. In such a situation the difficulty of developing a satisfactory sample was obviously magnified. In any event, although the longer-run objective was to move to a sampling basis, the problem was complex and would require considerable staff effort. Another reason that could be given in favor of sending the questionnaire to all banks in the form proposed was that comparable data then would be available for dates before and after the September interest rate legislation.

On the question of the short notice given to the Board to consider the proposal, it was pointed out that the Committee on Research and Statistics had acted on the survey only ten days ago. It had seemed to the staff desirable to bring the matter before the Board prior to the December holidays in order to ascertain whether the Board would be agreeable to conducting the survey as of the end of January, in which event plans for the survey would have to move forward rapidly. It was also noted that the other agencies concerned intended to conduct surveys on the same basis and as of the same date.

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Further comments by members of the Board reflected general concurrence in the view that the several questions raised at this meeting should be given further attention by the staff. However, the likely need for information in the area concerned in preparing testimony for Congressional hearings was recognized, and it appeared that it would not be feasible to conduct a survey at a date in the near future on a basis other than the one currently proposed. Members of the Board expressed the hope that in the future proposals of this character could be presented for consideration on a schedule such that if the Board had reservations regarding the contemplated procedures, time would permit adjustments to be made.

The conducting of the initial surveys on the basis proposed was then authorized, Governor Mitchell dissenting, with the understanding that the staff would devote further attention to possibilities for accommodating the suggestions that had been made by members of the Board in developing plans for the longer run. Governor Mitchell dissented from granting the authorization because in his judgment the proposed survey would not produce useful intelligence and it would be better to return the matter to the staff for exploration of alternatives. A copy of the letter sent to the Federal Reserve Banks reflecting the Board's decision on the survey is attached as Item No. 7.

Michigan National Bank matter (Item No. 8). Certain Michigan banks had filed a complaint against the Comptroller of the Currency,

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with the Board of Governors also named as a defendant, to prevent the proposed acquisition of Michigan Bank, National Association, Detroit, Michigan, by Michigan National Bank, Lansing. At issue were the provisions of section 5136 of the U.S. Revised Statutes prohibiting a bank from purchasing stock of another corporation, with certain exceptions.

By letter of November 23, 1966, the Department of Justice requested that the Board forward a report on the case for use by the Department in defense of the Board. There had now been distributed a draft reply that would suggest that consideration might appropriately be given to the filing of a motion to dismiss the Board as a party defendant on grounds that the allegations in the complaint reached the Comptroller but not the Board.

In commenting, Mr. O'Connell observed that the Comptroller of the Currency (Mr. Saxon) had given preliminary approval to the proposed transaction, holding that the restrictions of section 5136 would not be violated, whereas the Board had uniformly interpreted that statute as prohibiting one State member bank from acquiring the stock of another bank, and the Board's position had been publicized by administrative interpretation.

Additionally, plaintiffs alleged that a violation of the Bank Holding Company Act would be involved in the proposed acquisition. On this point, Mr. O'Connell recalled that a short time prior to the filing

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of the complaint in this case Michigan National Bank made public announcement of its proposal to acquire the outstanding common stock of Michigan Bank, the details being set forth in an October 20, 1966, proxy statement. Upon learning of this proposal, the Board reminded Michigan National Bank, by letter dated October 31, 1966, that the bank's profit sharing trust reportedly held for the benefit of the bank's employees in excess of 50 per cent of the outstanding voting stock of Central Bank, Grand Rapids, Michigan, and that in those circumstances Michigan National Bank's acquisition of the stock of Michigan Bank would constitute Michigan National Bank a bank holding company as defined in the Bank Holding Company Act, as amended. Subsequently, Michigan National Bank advised the Board that the profit sharing trust had arranged for the sale of sufficient shares of the stock of Central Bank to bring its holdings in that bank below 25 per cent and that no exchange offer would be made to the shareholders of Michigan Bank until consummation of such sale. Under the circumstances no apparent violation of the Bank Holding Company Act was involved.

However, the most recent report of examination of Livonia National Bank, Livonia, Michigan, revealed that the profit sharing trusts of Michigan Bank and Michigan National Bank each owned 24 per cent of the outstanding shares of common stock of Livonia National Bank. Should the proposed acquisition be consummated, Michigan National Bank would then become a bank holding company under the Bank Holding Company

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Act by virtue of its control of more than 25 per cent of the stock of two or more banks. However, in view of previous actions by Michigan National Bank to avoid conflict with or violation of the Bank Holding Company Act, Mr. O'Connell thought it not unreasonable to assume that the bank would take appropriate steps with respect to its control of stock in Livonia National Bank to avoid violation of the Bank Holding Company Act.

Mr. O'Connell went on to say that if Michigan National Bank should fail to take such action as was necessary to avoid violation of the Act, the question of violation could then be raised and determined even though the Board had been dismissed as a party defendant. Also, should a violation of the Bank Holding Company Act later be evident the Board could institute proceedings independent of the present litigation. However, questions might be raised if it later became known that one of the major issues involved in the suit was violation of the Holding Company Act and the Board had pulled back from an opportunity to litigate the issue. In addition, there was the possibility that the District Court would be reluctant to dismiss the Board, anticipating the possibility that shortly thereafter the Board might make an administrative determination on an issue pending before the court.

Accordingly, Mr. O'Connell recommended that an alternative letter be sent to the Department of Justice that would discuss the question of the propriety of the Board's remaining in the case by giving

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arguments pro and con, leaving it up to the Department to decide whether or not, in light of the considerations mentioned, to ask for dismissal.

Following discussion, unanimous approval was given to a letter revised along the lines suggested by Mr. O'Connell. A copy of the letter subsequently transmitted to the Department of Justice is attached as Item No. 8.

Several members of the staff withdrew from the meeting at this point.

National American Bank of New Orleans. Mr. Solomon reported that the steady borrowing of National American Bank of New Orleans, New Orleans, Louisiana, from the Federal Reserve Bank of Atlanta had been discussed with the bank by the Reserve Bank several times. The latest arrangement had been that the bank would discontinue its borrowing no later than January 15, 1967, and in the meantime would not exceed the level of its current borrowing. Vice President McCorvey of the Reserve Bank had now informed Mr. Solomon of difficulties experienced by National American Bank in meeting its clearings. Mr. Solomon then got in touch with Acting Comptroller of the Currency Camp and Deputy Comptroller Watson, and it had been arranged that a regional representative of the Comptroller's Office would join Mr. McCorvey in New Orleans this morning. The purpose of Mr. Solomon's report was to alert the Board to the problem and to let the Board know that the Comptroller's Office and the Reserve Bank were now following the matter actively.

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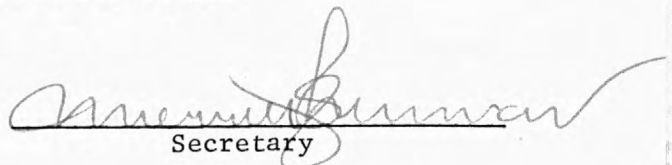
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During discussion it was observed that this situation pointed up the questions concerning administration of the discount window at the Atlanta Bank that had been the subject of Board discussions. The New Orleans member bank, understood to be the largest State depository, evidently had not managed its affairs with sufficient competence to cope with the large swings in such deposits; meanwhile, its borrowings from the Reserve Bank had continued over an extended period.

It was understood that the Division of Examinations would keep closely in touch with developments in respect to the New Orleans member bank; also that it would continue to follow closely the administration of the discount window at the Atlanta Reserve Bank.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a letter to the Federal Reserve Bank of Richmond (copy attached as Item No. 9) approving the appointment of John E. Thompson as Federal Reserve Agent's Representative at the Baltimore Branch.


Secretary

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 1
12/22/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 22, 1966

Board of Directors,
The Louisville Trust Company,
Louisville, Kentucky.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Louisville Trust Company, Louisville, Kentucky, of a branch at 7923-7925 Preston Highway, unincorporated area of Jefferson County, Kentucky, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2
12/22/66

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 22, 1966.



Chase International Investment Corporation,
1 Chase Manhattan Plaza,
New York, New York. 10005

Gentlemen:

In accordance with the request contained in your letter of November 17, 1966, the Board of Governors modifies its letter of September 21, 1966, and grants consent for your Corporation ("CIIC") either directly or through CIIC's wholly-owned subsidiary, Arcturus Investment and Development, Limited ("Arcturus"), Montreal, Canada, to purchase and hold additional shares of Liga Financiera, S.A. ("LIGA"), Madrid, Spain, at a cost of approximately US\$750,000, provided such shares are acquired within one year from the date of this letter. In this connection the Board also approves the purchase and holding of such shares in excess of 10 per cent of CIIC's or Arcturus' capital and surplus.

The Board's consent to the proposed additional purchase and holding of shares of LIGA by CIIC or Arcturus is granted subject to the same conditions as set forth in the Board's letter of March 30, 1965, as modified in its letter of August 3, 1966.

The foregoing consent is given, in the event that CIIC should make the investment, with the same understanding as set forth in the third paragraph of the Board's letter of September 21, 1966, and with the further understanding that should Arcturus make the proposed investment no additional investment by CIIC in Arcturus would be required.

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
12/22/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 30, 1966.

Mr. Leon T. Kendall,
Vice President and Economist,
New York Stock Exchange,
11 Wall Street,
New York, New York.

Dear Mr. Kendall:

Your desire to discontinue the New York Stock Exchange monthly report on member firm borrowing (MF-4) was brought to the attention of the Board through Mr. Keir of our Capital Markets Section. In view of the uses to which these data are now put, together with other sources of information that apply to the same universe, the Board concurs in the desirability of discontinuing the report. This letter may be regarded as giving any needed authority to eliminate the report with completion of data as of the last Wednesday of December 1966.

Sincerely yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
12/22/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 22, 1966

CONFIDENTIAL (FR)

Mr. Karl R. Bopp, President,
Federal Reserve Bank of Philadelphia
Philadelphia, Pennsylvania. 19101

Dear Mr. Bopp:

As requested in your letter of December 15, 1966, the Board of Governors approves the following minimum and maximum salaries for the respective grades of the employees' salary structure at the Federal Reserve Bank of Philadelphia, effective January 23, 1967.

<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	--	--
2	\$ 2,915	\$ 3,785
3	3,120	4,210
4	3,440	4,645
5	3,885	5,250
6	4,370	5,900
7	4,885	6,595
8	5,435	7,340
9	6,015	8,125
10	6,635	8,960
11	7,315	9,880
12	8,045	10,865
13	8,935	12,065
14	9,940	13,430
15	11,080	14,960
16	12,340	16,660

The Board approves the payment of salaries to employees within the limits specified for the grades in which their respective positions are classified. All employees whose salaries are below the minimums of their grades as a result of the structure increase should be brought within appropriate ranges not later than three months after the effective date of the new structure.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 5
12/22/66

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of
SECURITY BANK

for approval of merger with
Farmers and Merchants State Bank

ORDER APPROVING MERGER OF BANKS

There has come before the Board of Governors, pursuant to the Bank Merger Act, as amended (12 U.S.C. 1828(c), Public Law 89-356), an application by Security Bank, Webster, South Dakota, a State member bank of the Federal Reserve System, for the Board's prior approval of the merger of that bank and Farmers and Merchants State Bank, Roslyn, South Dakota, under the charter and title of Security Bank. As an incident to the merger, the sole office of Farmers and Merchants State Bank would become a branch of the resulting bank. Notice of the proposed merger, in form approved by the Board, has been published pursuant to said Act.

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

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

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is approved, provided that said merger shall not be consummated (a) before the thirtieth calendar day following the date of this Order or (b) later than three months after said date.

Dated at Washington, D. C., this 22nd day of December, 1966.

By order of the Board of Governors.

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

(signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

APPLICATION OF SECURITY BANK
FOR APPROVAL OF MERGER WITH FARMERS
AND MERCHANTS STATE BANK

STATEMENT

Security Bank, Webster, South Dakota, with total deposits of about \$4 million, has applied, pursuant to the Bank Merger Act (12 U.S.C. 1828(c), as amended by Public Law 89-356), for the Board's prior approval of the merger of that bank with Farmers and Merchants State Bank, Roslyn, South Dakota ("Roslyn Bank"), which has total deposits of about \$1 million.^{1/} The banks would merge under the charter and name of Security Bank, which is a member of the Federal Reserve System. As an incident to the merger, the single office of Roslyn Bank would become a branch of Security Bank, increasing the number of its offices to two.

Competition. - The single office of Security Bank is in Webster, which is the seat of Day County and its largest community (population about 2,700). Roslyn (population about 260), the site of the sole office of Roslyn Bank, is 12 miles north of Webster. Both communities are in northeastern South Dakota. The economy

^{1/} Figures are as of June 30, 1966.

of the area is supported by agriculture, with an emphasis on the raising of livestock and small grain.

There is no significant competition between the two banks. Recently, Roslyn Bank was acquired by the interests which control Security Bank. Even if common control were terminated, however, the development of meaningful competition between these banks is unlikely because of their small size and the essentially local nature of their business.

The nearest other banking offices to Roslyn and Webster are operated by six small banks, which are situated from 11 to 24 miles distant and range in deposit size from about \$1 million to \$4 million. These banks draw the vast bulk of their business from their own communities, and would not be adversely affected by the merger.

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

Financial and managerial resources and future prospects. -

The banking factors with respect to the subject banks are satisfactory, as they would be with respect to the resulting institution.

Convenience and needs of the communities. - The evidence shows that the increased lending limit of the resulting bank would benefit the residents of both the Webster and Roslyn areas. In addition, the replacement of Roslyn Bank by an office of Security Bank would bring par banking and other improved services to the Roslyn area.

Summary and conclusion. - In the judgment of the Board, the proposed merger would benefit the banking convenience and needs of Roslyn and Webster, and would not have an adverse effect on banking competition.

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

December 22, 1966.

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

Item No. 7
12/22/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 29, 1966.

Dear Sir:

The Board has authorized the institution of a regular reporting series to collect information on rates, terms, and amounts outstanding for various types of time and savings deposits at all member banks, similar to the surveys made in December 1965 and May 1966. This survey is to be conducted as of the last business day of the first month of each calendar quarter. Thus, the first survey will be as of January 31, 1967. Enclosed are two copies of the survey reporting form, which is to be duplicated at the Reserve Banks. The forms provide space for the Reserve Bank to insert the appropriate survey and report-filing dates for each survey.

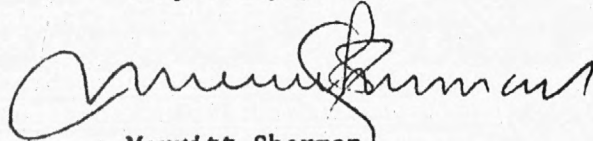
The specific recommendations regarding the survey were developed by a Subcommittee of the System Research Advisory Committee, and these recommendations were cleared without dissent through the Parent Committee and the Committee on Research and Statistics of the Conference of Presidents prior to submission to the Board.

While a quarterly survey has been authorized at this time, it is recognized that continuation of the survey in its present form as often as quarterly may prove unnecessary, particularly after conditions in the savings markets become less unsettled than they have been this year. Accordingly, the question of frequency and also of content will be reviewed after completion of the first three surveys, and any changes that prove desirable would be authorized at that time.

It is our understanding that the Federal Deposit Insurance Corporation will conduct an identical survey for nonmember insured banks on January 31. In addition, the FDIC and the Home Loan Bank Board will make comparable surveys on that date for all mutual savings banks and all insured savings and loan associations.

Copies of a technical memorandum outlining procedures for preliminary processing of the data at the Reserve Banks will be mailed shortly to Heads of Research and Data Processing offices. As you will appreciate, in order to complete the survey within the relatively tight time table that has been scheduled will require particular care in the review and edit of respondent reports on the part of the Reserve Banks so as to minimize error corrections after the data have been received at the Board.

Very truly yours,



Merritt Sherman,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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

Item No. 8
12/22/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 23, 1966

The Honorable H. Barefoot Sanders,
Assistant Attorney General,
Civil Division,
Department of Justice,
Washington, D. C. 20530

Attention Mr. Harland F. Leathers, Chief,
General Litigation Section.

Re: The Detroit Bank and Trust Company, et al. v.
James J. Saxon, Comptroller of the Currency, and
the Board of Governors of the Federal Reserve
System, Civil Action No. 3003-66 (U.S.D.C. D. D.C.)
Your Ref: BS:IG:af, 145-3-846

Dear Mr. Sanders:

This acknowledges your letter of November 23, 1966, requesting that a report on the above case be prepared and forwarded to your office in aid of your representation of the Board of Governors as a defendant in the case. In view of discussion between Mr. Irwin Goldbloom of your staff and Mr. Thomas J. O'Connell of the Board's legal staff, this reply will assume knowledge by your staff of the position occupied in this case by Michigan National Bank, Lansing, Michigan, and Michigan Bank, National Association, Detroit, Michigan (herein "Michigan Bank"). The Board is advised that, subsequent to the filing of the complaint, a motion for leave to intervene as a party defendant was filed on behalf of Michigan National Bank, and that on behalf of defendants Comptroller of the Currency and Board of Governors your office has filed a "no objection" to that motion. Accordingly, the Board assumes that Michigan National Bank has been or will be admitted as a party defendant.

Subject to certain legal and policy constraints hereafter mentioned, it would appear that consideration would appropriately be given to the filing of a motion to dismiss the Board of Governors as a party defendant. Plaintiffs' allegation that Michigan National Bank's proposed purchase of the capital stock of Michigan Bank for its own account, if consummated, would violate the prohibitions of paragraph Seventh, R. S. 5136 (12 U.S.C. § 24) is unaccompanied by any

The Honorable H. Barefoot Sanders -2-

allegation of unlawful or wrongful act in this respect contemplated or proposed by, or statutorily available to the Board. No request of any nature for injunctive or restraining relief is made with respect to the Board, as it is against the Comptroller of the Currency (paragraphs B.1, 2, and 3 of the complaint's prayer). While plaintiffs correctly allege (Compl. para. 5) that the Board of Governors is "empowered by Congress to regulate certain activities performed by member banks, both State and national", there is no allegation, nor could there properly be, of statutory or regulatory authority in the Board of Governors to take any action with respect to authorizing, validating, or effecting the action in issue, namely, Michigan National Bank's proposed increase of authorized capital stock, or its issuance thereof to the shareholders of Michigan Bank. Regarding Michigan National Bank's proposal to acquire the voting stock of Michigan Bank, paragraph Seventh of R. S. 5136 provides "Except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize purchase by the association [National Bank] for its own account of any shares of stock of any corporation". The twentieth paragraph of section 9 of the Federal Reserve Act (12 U.S.C. 335) subjects State-chartered banks that are members of the Federal Reserve System "to the same limitations and conditions with respect to the purchasing . . . of . . . stock as are applicable in the case of national banks." Consequently, both national banks and State member banks are governed by the above-quoted provisions of R. S. 5136. However, the Comptroller of the Currency enforces and interprets those provisions with respect to national banks, and the Federal Reserve System enforces the same in its supervision of State member banks. Accordingly, any allegation of a wrongful act or of a failure to act on the part of a Federal bank supervisory authority with respect to a national bank's proposed action in violation of the quoted provision of R. S. 5136 is to be asserted against the Comptroller of the Currency.

As applied to State member banks, the Board has publicly taken the position that the cited provisions of R. S. 5136, made applicable to State member banks under section 9 of the Federal Reserve Act, make unlawful the voluntary acquisition by a State member bank of the stock of another bank, whether the consideration given for the stock consists of cash, other bank assets, or shares of stock of the acquiring bank. A more detailed statement of the Board's position is contained in the May 1966 issue of the Federal Reserve Bulletin at page 655, a copy of which is attached to the complaint and marked Exhibit C.

In view of the responsibility of defendant Comptroller of the Currency with respect to the alleged violations of the cited provisions of R. S. 5136, and considering that no allegation of similar

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responsibility is made, or could properly be made, against the Board, nor is injunctive or restraining relief sought against the Board, it appears that, in relation to the R. S. 5136 issue, a motion to dismiss on behalf of the Board would properly lie for failure to state a claim as to which relief can be granted.

An additional violation of law alleged (Compl. para. 15) is that the subject proposal would contravene the provisions of the Bank Holding Company Act of 1956, 12 U.S.C. § 1841, et seq., as amended by Public Law 89-485, 80 Stat. 236. The complaint contains no specification of the alleged violation of the Bank Holding Company Act, nor asserts the fact or facts upon which this allegation is based. As Mr. O'Connell has discussed with Mr. Goldbloom, a short time prior to the filing of the complaint in this case, Michigan National Bank made public announcement of its proposal to acquire the outstanding common stock of Michigan Bank. The details of that proposal were set forth in an October 20, 1966 proxy statement issued by Michigan National Bank. Upon learning of this proposal, the Board advised Michigan National Bank of the Board's understanding that the Bank's Profit Sharing Trust held for the benefit of Bank's employees in excess of 50 per cent of the outstanding voting stock of Central Bank, Grand Rapids, Michigan, and that, in these circumstances, Michigan National Bank's acquisition of the stock of Michigan Bank would constitute Michigan National Bank a bank holding company as defined in the Bank Holding Company Act.

The rationale of the Board's conclusion was as follows. Section 2(a) of the Bank Holding Company Act, as amended, defines a bank holding company as "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 of a company that is or becomes a bank holding company by virtue of this Act; . . .". Section 2(g)(2) of the Act, as amended, provides that "shares held or controlled directly or indirectly by trustees for the benefit of . . . (C) employees (whether exclusively or not) of a company, shall be deemed to be controlled by such company; . . .". Michigan National Bank was advised that, assuming the trustees of the Profit Sharing Trust owned at least 25 per cent of the stock of Central Bank at such time as Michigan National Bank's proposal to acquire the stock of Michigan Bank was consummated, Michigan National Bank would directly or indirectly control more than 25 per cent of the voting stock of each of two banks, namely, Central Bank and Michigan Bank. In response to the Board's communication, Michigan National Bank advised the Board that the Profit Sharing Trust had, by sale of stock, reduced its holdings in the Central Bank to less than 25 per cent of the total outstanding voting stock, and that, accordingly, the proposed acquisition of

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Michigan Bank stock would not constitute Michigan National Bank a bank holding company as defined by the Bank Holding Company Act. The Board acknowledged Michigan National Bank's letter, noted the Bank's expression of opinion as aforesaid, but made no statement with respect to the validity of that opinion.

In the course of review of the most recent report of examination of Livonia National Bank, Livonia, Michigan, the Board's attention was brought to the following reported ownership of stock of the Livonia National Bank: of the total of 50,000 outstanding shares of common stock, 12,000 shares are held by the Profit Sharing Trust of Michigan Bank; and 12,000 shares are held by the Profit Sharing Trust of Michigan National Bank. The Federal Reserve Bank of Chicago has confirmed that at current date the aforementioned ownership continues. Accordingly, the combined holdings of the Profit Sharing Trusts of the two banks represent control of 48 per cent of the outstanding voting stock of Livonia National Bank. Assuming consummation of Michigan National Bank's proposal to acquire the stock of Michigan Bank, it is the Board's opinion that Michigan National Bank would become a bank holding company under the Act, since, pursuant to the above-quoted section 2(g)(2) of the Act, the shares held by the Profit Sharing Trust of Michigan Bank are deemed to be controlled by that Bank, and the shares held by the Profit Sharing Trust of Michigan National Bank are deemed to be controlled by that Bank. Upon acquisition of control by Michigan National Bank of Michigan Bank, Michigan National Bank will come into control of the Livonia National Bank stock now controlled by Michigan Bank. Michigan National Bank would then control more than 25 per cent of the stock of two or more banks, namely, Michigan Bank and Livonia National Bank.

While the foregoing analysis is pertinent to plaintiffs' allegation that consummation of the proposal in issue would constitute Michigan National Bank a bank holding company, the following observations are considered equally pertinent. The Board's inquiry into the current status of Michigan National Bank's holding of the stock of Livonia National Bank involved a discussion of such holding between an official of the Federal Reserve Bank of Chicago and a principal officer of Michigan National Bank. During this conversation Michigan National Bank's official was informed of the view that, assuming continuation of the aforesaid control of Livonia National Bank stock, upon consummation of the Michigan Bank acquisition, Michigan National Bank would become a bank holding company. In the light of previous actions by Michigan National Bank to avoid conflict with or violation of the Bank Holding Company Act, it is not unreasonable to assume that the Bank has taken, or will take, appropriate steps with respect to its

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control of stock in Livonia National Bank to avoid violation of the Bank Holding Company Act.

Even should Michigan National Bank fail to take such action as necessary to avoid violation of the Act, it would appear that the fact and effect of such a violation can be determined at trial of this case even though the Board has been dismissed as a party defendant. The issue of such violation can be joined as between plaintiffs and defendants Michigan National Bank and the Comptroller of the Currency. However, the Board believes that persuasive reasons can be advanced in favor of the Board's remaining a party in this case.

The Board's statutory responsibility with respect to interpretation and enforcement of the Bank Holding Company Act, viewed in relation to the alleged prospective violation of that Act, presents ample reason for the District Court to want available to it both the "person" of the Board for jurisdictional purposes, and the views of the Board regarding the alleged violation of the Act. Thus, it is logical to assume that the court would be reluctant to dismiss the Board as a defendant, anticipating the possibility that shortly thereafter the Board might make an administrative determination on the very issue pending before the court. There is also the possibility that a motion to dismiss could precipitate efforts by plaintiffs to amend their complaint to ask mandatory relief of the Board with respect to the asserted Bank Holding Company Act violation. We believe that the present prayer for relief, directed as it is solely to the Comptroller of the Currency, most favorably positions the Board with respect to its role in this case.

A final consideration that appears to argue against any effort to dismiss the Board, unless similar effort is made with respect to the Comptroller of the Currency, is the possibility that the court might desire, or at least not resist, the Board's participation in the resolution of the aforementioned conflicting interpretations with respect to the prohibitory effect or not on Michigan National Bank's proposal of paragraph Seventh of R. S. 5136. As mentioned, the R. S. 5136 issue is not raised in this case because of any action taken or threatened by the Board pursuant to its interpretation of that provision of law; however, the Board's interpretation has been brought indirectly into issue by plaintiffs' allegations and their Exhibit C to the complaint. Considering the recent action of the District Court for the District of Columbia in the Baker, Watts & Co. case (Civil Action No. 97-66) in requesting the Board to file an amicus brief setting forth the Board's interpretation of a portion of paragraph Seventh of R. S. 5136, it is not unreasonable to assume that similar assistance in the same or a related form will be asked in this case.

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As to other of the complaint's allegations of violations of Federal law, it is alleged (Compl. para. 15) that the subject proposal would violate the provisions of 12 U.S.C. §§ 36 and 81 (R. S. 5155 and 5190), which relate, respectively, to the operation of branches by national banks and the locations at which the general business of a national bank may be transacted. As noted earlier with regard to the alleged violation of R. S. 5136, a determination as to whether a particular transaction proposed to be undertaken by a national bank would violate the provisions of 12 U.S.C. §§ 36 and 81 is a matter for determination by the Comptroller of the Currency. Although the Board has taken the position that the acquisition by a State member bank of the stock of another bank would violate at least the spirit of the branch banking provisions of 12 U.S.C. § 36, no position has been taken on this issue by the Board in this case. In view of the fact that the proposal here involves a national bank, it would seem that the questions relating to alleged violations of 12 U.S.C. §§ 36 and 81 should be decided in the context of plaintiffs' allegations and defendant Comptroller of the Currency's answer thereto.

The Board believes that there are no relevant documents, list of names, or other supporting data that might be beneficial to you at this time. Further, in view of the apparent conflict represented, respectively, by positions of defendants Comptroller of the Currency and the Board with respect to several of plaintiffs' allegations, the Board believes advisable its withholding of specific statements of admission or denial with respect to the allegations of the complaint. At such time as you have reached a decision on the question of filing a motion to dismiss on behalf of the Board, the matter of specific admissions or denials of the complaint's allegations can be mutually resolved.

In the foregoing connection, Mr. O'Connell will render whatever assistance is considered appropriate in any phase of the Department's preparation of the Board's position.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 9
12/22/66



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 23, 1966

Mr. Edwin Hyde,
Chairman of the Board and
Federal Reserve Agent,
Federal Reserve Bank of Richmond,
Richmond, Virginia. 23213

Dear Mr. Hyde:

In accordance with the request contained in your letter of December 8, 1966, the Board of Governors approves the appointment of Mr. John E. Thompson as a Federal Reserve Agent's Representative at the Baltimore Branch to succeed Mr. Talbott D. Cockey.

This approval is given with the understanding that Mr. Thompson will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of his duties, except that, during the absence or disability of the Federal Reserve Agent or a vacancy in that office, his responsibility will be to the Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of his duties as Federal Reserve Agent's Representative, Mr. Thompson may, with the approval of the Federal Reserve Agent and the Vice President in charge of the Baltimore Branch, perform such work for the Branch as will not be inconsistent with his duties as Federal Reserve Agent's Representative.

It will be appreciated if Mr. Thompson is fully informed of the importance of his responsibilities as a member of the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

It is noted from your letter that, with the approval of Mr. Thompson's appointment by the Board of Governors, he will execute the usual Oath of Office which will be forwarded to the Board together with advice of the effective date of his appointment.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.