

Minutes of the Board of Governors of the Federal Reserve System
dated on Monday, December 2, 1968. The Board met in the Board Room
at 10:00 a.m.

MINUTES

Board of Governors of the Federal Reserve System

December 2, 1968

PRESENT: Mr. Martin,
Mr. Boardman,
Mr. Sullivan

- Mr. Holloman, Secretary
- Mr. Kinross, Deputy Secretary
- Mr. Forrester, Assistant Secretary
- Mr. Haskins, Assistant to the Board
- Mr. G. Cook, Assistant to the Board
- Mr. Coyne, Special Assistant to the Board
- Mr. Nichols, Special Assistant to the Board
- Mr. Johnson, Director, Division of Supervision and Regulation
- Mr. Harris, Coordinator of Defense Planning
- Mr. O'Connell, Deputy General Counsel
- Mr. Axilrod, Director, Division of Research and Statistics
- Mr. ... Vice President of the Federal Reserve Bank of New York and Manager of the System Open Market Account

SEC Investigation. Staff of the Securities and Exchange

Commission had prepared under date of October 31, 1968, a report of investigation regarding (1) the use, in 1967, of advance information concerning Treasury financing and (2) "interpositioning" practices engaged in by individuals in the employ of certain securities dealers in New York City. The staff report was to be presented to the Commission shortly. In addition, different types of proceedings were being considered, including administrative proceedings, injunction proceedings, and criminal proceedings.

12/2/68 Minutes of the Board of Governors of the Federal Reserve

System on Monday, December 2, 1968. The Board met in the Board Room at 10:00 a.m.

- PRESENT: Mr. Martin, Chairman
 Mr. Robertson, Vice Chairman
 Mr. Mitchell
 Mr. Maisel
 Mr. Brimmer
 Mr. Sherrill
- Mr. Holland, Secretary
 Mr. Kenyon, Deputy Secretary
 Mr. Forrestal, Assistant Secretary
 Mr. Hackley, Assistant to the Board
 Mr. Cardon, Assistant to the Board
 Mr. Coyne, Special Assistant to the Board
 Mr. Nichols, Special Assistant to the Board
 Mr. Solomon, Director, Division of Supervision and Regulation
 Mr. Harris, Coordinator of Defense Planning
 Mr. O'Connell, Deputy General Counsel
 Mr. Axilrod, Adviser, Division of Research and Statistics
 Mr. Holmes, Vice President of the Federal Reserve Bank of New York and Manager of the System Open Market Account

SEC investigation. Staff of the Securities and Exchange Commission had prepared under date of October 31, 1968, a report of investigation regarding (1) the use, in 1967, of advance information concerning Treasury financing and (2) "interpositioning" practices engaged in by individuals in the employ of certain securities dealers in New York City. The staff report was to be presented to the Commission shortly, and three different types of proceedings were being considered, including administrative proceedings, injunction proceedings, and criminal proceedings.

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Developments in the matter were outlined in a memorandum from Mr. Hackley to Governor Robertson dated November 29, 1968, copies of which had been made available to the other members of the Board.

The purpose of the discussion at this meeting was to bring the Board up to date, to raise certain questions, and to alert the Board to possible developments.

The principal statement was made by Mr. Holmes, who reviewed the situation generally and noted that a number of questions were presented, such as whether securities firms should be urged to discharge employees who were under suspicion in relation to the "interpositioning" practices, whether the firms involved should be suspended from trading with the Federal Reserve until the results of proceedings growing out of the SEC investigation were known, and whether, if the Commission should assess penalties on individuals or firms involved in the "interpositioning" practices, the Federal Reserve should go further and refuse to do business with any firm if it or its employees were deemed to have engaged in fraudulent practices.

Since the SEC staff report and its appendices referred to a number of complex transactions that were hard to follow, Mr. Holmes made the specific recommendation that a request be submitted at staff level that representatives of the Federal Reserve and the Treasury be permitted to study the underlying documentation so that a better understanding might be obtained of the transactions involved.

the application.

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There was general agreement that it would be desirable to have the benefit of such a technical study, and the Board concurred in the view that a request should be made for access to the relevant documents.

Mr. Holmes also noted that the Securities and Exchange Commission was likely to issue a press statement with reference to the investigation, which raised the question whether the Federal Reserve should join in it.

Chairman Martin observed that it would appear unwise for the Federal Reserve to associate itself with the charges, because not enough was known about them, and it developed to be the general view that the Federal Reserve should not join in an SEC press statement, leaving open the question whether the Federal Reserve would want to issue a statement of its own.

A longer-run problem, Mr. Holmes pointed out, related to continuing surveillance and supervision of the Government securities market, and a suggestion had been made that the System might want to make use of its trading relationships as a vehicle for the enforcement of standards of dealer conduct. It was his recommendation that the Secretariat of the Joint Treasury-Federal Reserve Study of the Government Securities Market be reactivated to study certain procedural suggestions contained in the SEC staff report, explore other aspects of the situation as well, and make recommendations of longer-run application.

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It was agreed that the Secretariat should be reactivated for the purpose mentioned, with the understanding that this decision could be confirmed at the next meeting of the Federal Open Market Committee.

Inquiry was made as to the responsibility of the Federal Reserve in relation to "interpositioning" practices such as cited in the SEC staff report, and Mr. Holmes replied that the System had no legal responsibility. However, both the Federal Reserve and the Treasury were interested in the proper functioning of the Government securities market and thus were concerned about any poor practices in that area.

Governor Robertson mentioned that at his request Mr. Harris had compiled a complete record of developments growing out of the Treasury financing leak in 1967, and he requested that Mr. Harris be kept advised also of developments on the "interpositioning" problem and the results of the proposed study of SEC staff documents by technical experts.

Mr. Harris noted that the General Accounting Office was holding temporarily in abeyance an investigation of fiscal agency operations at the Federal Reserve Banks. He felt that the General Accounting Office might move forward when the SEC report was released and raised the question whether the Reserve Bank Presidents should be alerted.

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Governor Robertson suggested that the subject be covered with the Presidents at the time of the next Open Market Committee meeting unless developments made it appear that earlier communication with them would be advisable, in which event the question could be brought back to the Board for further consideration.

Question was raised whether it was correct to assume that there was nothing in the SEC staff report, other than the 1967 incident at the Philadelphia Reserve Bank, to suggest wrongdoing on the part of Federal Reserve personnel, and Mr. Holmes said the assumption was correct.

Messrs. Holmes and Harris then withdrew from the meeting. Mr. Forrestal, Assistant Secretary, and Miss Wolcott of the Office of the Secretary entered the room along with officers and staff members of the Division of Research and Statistics and the Division of International Finance.

Money market review. The usual weekly review was presented; copies of the statistical materials prepared in connection therewith have been placed in the Board's files.

After a discussion based on the review, members of the research divisions other than Mr. Ettin of the Division of Research and Statistics and Messrs. Reynolds and Sammons of the Division of International Finance withdrew from the meeting. Messrs. Holland and Cardon also withdrew and the following entered:

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Mr. Farrell, Director, Division of Federal Reserve Bank Operations

Mr. Johnson, Director, Division of Personnel Administration

Mr. Shay, Assistant General Counsel

Mr. McIntosh, Assistant Director, Division of Federal Reserve Bank Operations

Mr. Egertson, Assistant Director, Division of Supervision and Regulation

Miss Hart, Assistant Director, Division of Supervision and Regulation

Mr. Lyon, Assistant Director, Division of Supervision and Regulation

Mr. Hart, Assistant Director, Division of Personnel Administration

Messrs. Lipkowitz, Lynch, Noble, and Plotkin of the Legal Division

Mr. Cleaver of the Division of Research and Statistics

Messrs. Cloth, Kline, Rumbarger, and Shuter of the Division of Supervision and Regulation

Discount rates. The establishment without change by the Federal Reserve Bank of Minneapolis on November 25, by the Federal Reserve Banks of Cleveland, Richmond, and Chicago on November 27, and by the Federal Reserve Banks of Atlanta, St. Louis, and Dallas on November 29, 1968, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

American International Bank. Pursuant to the understanding at the meeting on October 18, 1968, the Legal Division, in a memorandum of November 22, presented additional information believed to be relevant to the request of American International Bank, New York, New York, an Edge corporation, for a ruling on whether the occasional

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purchase of gold bullion from licensed domestic sources for resale to licensed domestic users under its Treasury Department gold license would be permissible under section 25(a) of the Federal Reserve Act, as long as such domestic purchases were not substantial in relation to its aggregate foreign purchases.

Among other things, the memorandum advised that the Treasury had been consulted and that it had no particular views with regard to American International Bank's request. American International Bank had confirmed its earlier position that it would not be able to continue to operate in the bullion market unless it had some latitude to make domestic purchases but had suggested that it could, if necessary, live with a limit of 15 to 20 per cent in relation to total gold purchases during any quarter.

The Federal Reserve Bank of New York remained unconvinced that it was necessary for American International Bank to be permitted to purchase gold in the United States in order to continue to deal in foreign gold or that such domestic purchases were a necessary incident to the purchase of gold overseas. However, the Board's Legal Division continued to believe that it would be reasonable to permit American International to have some leeway to make occasional gold purchases domestically, that the Board would be legally justified in permitting the Edge corporation to make domestic purchases within a limited range to meet market demands, and that a limit in the range of 15 to 20 per cent of aggregate purchases would be reasonable.

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After reviewing the additional information submitted, most members of the Board concluded that occasional purchases of domestic gold by the Edge corporation could appropriately be defined as an activity incidental to its international or foreign business within the meaning of section 25(a) of the Federal Reserve Act. A limit of 15 per cent in relation to aggregate gold purchases during any quarter was considered to be acceptable.

Governor Brimmer agreed with the view of the New York Reserve Bank. In his opinion the purchase of domestic gold did not fall within the proper scope of business for an Edge corporation and American International Bank should not continue to operate in the bullion market if it could not do so without engaging in domestic gold purchases.

At the conclusion of the discussion, approval was given to a letter to American International Bank in the form attached as Item No. 1. Governor Brimmer dissenting.

United Bancshares. The Board authorized issuance of an order and statement reflecting its approval on October 28, 1968, of the application of United Bancshares of Florida, Inc., Coral Gables, Florida, to acquire shares of United National Bank of Dadeland, Miami, Florida, a proposed new bank. Copies of the documents, as issued, are attached under Item No. 2.

It had been understood at the October 28 meeting that United Bancshares would be placed on notice, when advice of the current action

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was sent to it, that the Board would not be disposed to give favorable consideration to additional acquisition proposals until the holding company's debt was retired or at least substantially reduced. A copy of the letter sent pursuant to that understanding is attached as Item No. 3.

Hawkeye Bancorporation. Hawkeye Bancorporation, Red Oak, Iowa, had applied for permission to acquire shares of three banks in Iowa: Burlington Bank and Trust Company, Burlington; First National Bank, Clinton; and The Pella National Bank, Pella. In each case control of the bank was presently held by Mr. Paul D. Dunlap, President of Hawkeye, and certain associates through the medium of one-bank holding companies, so the applications contemplated merely a rearrangement of corporate ownership.

The recommendations received from the State Superintendent of Banking and the Comptroller of the Currency were favorable, but the Examinations Department of the Federal Reserve Bank of Chicago recommended denial because of serious reservations regarding the character of applicant's management as exemplified by its president.

In a memorandum dated November 8, 1968, the Division of Supervision and Regulation recommended approval of the applications, but with a condition that consummation of the transactions not occur until such time as all debt had been eliminated from applicant's corporate structure by the sale of equity capital. The Division noted that

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applicant's debt position was already quite heavy and that the applications under consideration envisaged the assumption of additional debt now carried by the three corporations whose mergers with applicant would effectuate the proposed acquisitions. However, President Dunlap reportedly had made a commitment that applicant would sell stock in an amount sufficient to retire both its present debt and the debt it proposed to assume.

It was the general view of the Board members that in all the circumstances the applications should be approved. The principal discussion related to whether there should be a stipulation, in approving the applications, that the entire corporate debt must be eliminated through the sale of stock. It was pointed out, on the one hand, that this would be a more stringent requirement than the Board had laid down in some other holding company situations. On the other hand, it was felt that the management policies and practices cited by the Chicago Reserve Bank should not be disregarded, and in any event it was noted that a commitment had been made on behalf of the applicant. Accordingly, it was the consensus that applicant should be advised that approval of the applications was predicated on the commitment of Hawkeye Bancorporation to a program for the early retirement of its entire debt, both existing and to be assumed.

The applications were then approved unanimously, subject to the understanding with respect to debt retirement, and it was

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understood that orders and a statement would be prepared for the Board's consideration.

Equity funding. In a memorandum dated November 25, 1968, the Division of Supervision and Regulation proposed certain amendments to Regulation G, Credit by Persons other than Banks, Brokers, or Dealers for the Purpose of Purchasing or Carrying Registered Equity Securities, and Regulation U, Credit by Banks for the Purpose of Purchasing or Carrying Registered Stocks, and recommended that they be sent to the Federal Reserve Banks for consideration prior to publication for comment.

The first proposal was to make loans extended by banks and by Regulation G lenders to finance equity funding programs subject to margin regulation. Such programs involve the coordinated acquisition, over a period of time, of mutual fund shares and insurance, the shares being pledged to secure loans to pay the insurance premiums. While it seemed obvious that in an economic sense the loans served to finance acquisition of the shares, an argument had been made that the loans were not under present regulatory language "for the purpose" of purchasing or carrying the shares. In any event, however, it seemed clear that the programs themselves were "securities" within the meaning of the Securities Exchange Act of 1934, so that under the recent amendments to that Act relating to over-the-counter securities the Board had authority to bring loans to finance the programs under

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margin regulation. Also, the Securities and Exchange Commission had ruled that such plans or programs were "securities."

The second proposal was to discontinue the Board's List of Stocks Registered on a National Securities Exchange and of Certain Investment Companies. In its place would be substituted regulatory language that would have the effect of requiring banks and Regulation G lenders to conclude that loans to purchase or carry mutual fund shares were subject to margin regulation unless the fund invested 95 per cent or more of its portfolio in "exempted" securities (chiefly Government securities).

Most Board members expressed themselves as persuaded by the staff analysis, subject to further consideration in the light of comments received from the public and the Reserve Banks, and therefore favored publication of the proposed regulatory amendments. In this connection it was suggested that the time span prior to final action could be shortened by securing the views of the Reserve Banks concurrently with publication of the proposed amendments for comment rather than prior to such publication.

With regard to the second of the proposals, to discontinue the List of Stocks Registered on a National Securities Exchange and of Certain Investment Companies, Governor Mitchell noted that a decision on such a matter should not be based solely on cost considerations. While there was general agreement with that observation,

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the view was that in this instance the proposed action appeared to be warranted on regulatory and administrative grounds.

Governor Maisel expressed reservations with respect to the proposal to make loans under equity funding programs subject to margin regulation because of certain policy implications he saw in it that to him were troublesome. The mere fact that authority existed to regulate did not suggest to him that the authority should necessarily be exercised, and in this instance he felt that what might be involved in regulation was an element of discrimination against parties whose judgment indicated to them the desirability of purchasing insurance in a certain manner.

At the conclusion of the discussion, the publication of the proposed amendments for comment was authorized, with the understanding that the views of the Reserve Banks also would be requested. A copy of the letter sent to the Reserve Banks in this connection is attached as Item No. 4. Copies of the proposed amendments are attached under Item No. 5, along with a copy of the related press release.

Reserve Bank matters. 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.

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Item No.

Telegram to the Federal Reserve Bank of Kansas City interposing no objection to the acquisition of an easement at the rear of the Oklahoma City Branch building at a cost not to exceed \$55,000.	6
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Letter to the Federal Reserve Bank of New York approving a revised salary range for the position of the Bank's Medical Director.	7
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Letter to the Federal Reserve Bank of Atlanta approving a revision of the salary structures applicable to employees at the head office and branches.	8
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The meeting then adjourned.



Secretary

Item No. 1
12/2/68BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 2, 1968

American International Bank,
120 Broadway,
New York, New York. 10005

Gentlemen:

This refers to your letters of July 26, August 6, and October 23, 1968, requesting the Board's opinion whether domestic gold purchases under your Treasury license for resale to domestic users would be permissible under section 25(a) of the Federal Reserve Act. That statute provides that no Edge corporation "shall carry on any part of its business in the United States except such as, in the judgment of the Board . . ., shall be incidental to its international or foreign business" (12 U.S.C. 616)

In the circumstances of this particular case, the Board would not object to occasional domestic purchases of gold under your Treasury license, provided that such domestic purchases do not exceed 15 per cent of your aggregate gold purchases during any calendar quarter.

Very truly yours,

(Signed) Robert P. Forrestal

Robert P. Forrestal,
Assistant Secretary.

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

In the Matter of the Application of
UNITED BANCSHARES OF FLORIDA, INC.,
Coral Gables, Florida,
for approval of acquisition of at least
66-2/3 per cent of the voting shares of
United National Bank of Dadeland, Miami,
Florida, a proposed new bank.

ORDER APPROVING APPLICATION UNDER
BANK HOLDING COMPANY ACT

There has come before the Board of Governors, pursuant to section 3(a)(3) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(a)(3)) and section 222.3(a) of Federal Reserve Regulation Y (12 CFR 222.3(a)), an application by United Bancshares of Florida, Inc., Coral Gables, Florida, a registered bank holding company, for the Board's prior approval of the acquisition of at least 66-2/3 per cent of the voting shares of United National Bank of Dadeland, Miami, 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 application and requested his views and recommendation. The Comptroller recommended approval of the application.

Notice of receipt of the application was published in the Federal Register on June 21, 1968 (33 Federal Register 9229), providing an opportunity for interested persons to submit comments and views with respect to the proposed transaction. A copy of the application was forwarded to the United States Department of Justice for its consideration. Time for filing comments and views has expired and all those received have been considered by the Board.

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 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 the date of this Order unless such period is extended for good cause by the Board or by the Federal Reserve Bank of Atlanta, pursuant to delegated authority, and that United National Bank of Dadeland shall be open for business not later than six months after the date of this Order.

Dated at Washington, D. C., this 2nd day of December, 1968.

By order of the Board of Governors.

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

Absent and not voting: Governor Brimmer.

(Signed) Robert P. Forrestal

Robert P. Forrestal,
Assistant Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

APPLICATION BY
UNITED BANCSHARES OF FLORIDA, INC., CORAL GABLES, FLORIDA,
FOR APPROVAL OF THE ACQUISITION OF VOTING SHARES OF
UNITED NATIONAL BANK OF DADELAND, MIAMI, FLORIDA

STATEMENT

United Bancshares of Florida, Inc., Coral Gables, Florida ("Applicant"), a registered bank holding company, has applied to the Board of Governors, pursuant to section 3(a)(3) of the Bank Holding Company Act of 1956 (12 U.S.C. 1842(a)(3)), for prior approval of the acquisition of 66-2/3 per cent or more of the voting shares of United National Bank of Dadeland, Miami, Florida ("Dadeland Bank"), a proposed new bank.

Views and recommendation of supervisory authority. - As required by section 3(b) of the Act, the Board notified the Comptroller of the Currency of receipt of the application and requested his views and recommendation thereon. The Comptroller recommended approval of the application.

Statutory considerations. - Section 3(c) of the Act provides that the Board shall not approve an acquisition that would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States. Nor may the Board approve a proposed

acquisition the effect of which, in any section of the country, may be substantially to lessen competition, or to tend to create a monopoly, or which in any other manner would be in restraint of trade, unless the Board finds that the anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served. In each case the Board is required to take into consideration the financial and managerial resources and future prospects of the bank holding company and the banks concerned, and the convenience and needs of the community to be served.

Competitive effect of proposed transaction. - Applicant, the seventh largest holding company and seventh largest banking organization in the State of Florida, presently controls three banks with aggregate deposits of \$219 million.^{1/} The 10 largest banking organizations presently control about 37 per cent of the total commercial bank deposits in the State; Applicant controls 2.3 per cent of such deposits. Dadeland Bank, a proposed new bank, is expected to have \$12 million in total deposits after three years of operation. Approval of the application would therefore have no immediate effect and only negligible long-range effect on the present degree of State-wide concentration.

Dadeland Bank will be located in the Dadeland Shopping Center about 6-1/4 miles south of Applicant's Coral Gables subsidiary and about 12-1/2 miles south of the business district of Miami, where

^{1/} Banking data are as of December 30, 1967, unless otherwise noted, and reflect acquisitions approved by the Board to date.

another of Applicant's subsidiaries is located. Applicant's lead bank, located in Miami Beach, is not a competitor in the area to be served by Dadeland Bank.

Of Applicant's three present subsidiary banks, only Coral Gables Bank is regarded as competing significantly in the area to be served by Dadeland Bank. However, since Dadeland Bank is a proposed new bank that will not open for business unless the application is approved, no existing competition will be eliminated, nor will potential competition between the bank and Applicant's present subsidiaries be foreclosed by the transaction.

Dadeland Bank will face competition from four existing banks in its primary service area, a rapidly growing area in the southern part of Dade County. At present, the nearest bank is the Bank of Kendall, which is located less than one mile from Bank's proposed site, on the opposite side of a primary north-south expressway. The Bank of Kendall is a subsidiary of Commercial Bancorp, a registered bank holding company. The other three banks, which range in deposit size from \$6 million to \$31 million, are located along the expressway about two to four miles from Dadeland Bank's proposed location. It does not appear that consummation of Applicant's proposal would adversely affect the viability or competitive effectiveness of competing banks.

In light of these facts, the Board concludes that consummation of the proposed acquisition would not result in a monopoly nor be

in furtherance of any combination, conspiracy, or attempt to monopolize the business of banking in any area. It does not appear that the proposal would have the effect of substantially lessening competition or tending to create a monopoly in any section of the country, nor would it in any other manner be in restraint of trade.

Financial and managerial resources and future prospects. -

Dadeland Bank's proposed capital appears adequate; its management, which will be drawn from Applicant's present subsidiaries, is considered satisfactory; and its prospects appear favorable.

The financial condition of Applicant's present subsidiary banks is reasonably satisfactory, and the management of Applicant and its subsidiaries is capable and experienced. While Applicant now has a relatively heavy debt position, consummation of this proposal will not further increase this debt and, from an earnings standpoint, could provide opportunity for reduction of Applicant's debt position by affording it an expanded source of future earnings. On balance, the Board concludes that considerations under these factors are consistent with approval of the present application.

Convenience and needs of the community involved. - The establishment of Dadeland Bank at its proposed site will add to the convenience of the businesses located in the Dadeland Shopping Center, and to that of their employees and customers. In addition, Dadeland Bank will offer a check credit plan and long-term mortgages, services

not available from other banks located in the area to be served. This added convenience and additional service provide some weight in favor of approval of the application.

Summary and conclusion. - On the basis of all relevant facts contained in the record, and in light of the factors set forth in section 3(c) of the Act, it is the Board's judgment that the proposed transaction would be in the public interest and that the application should be approved.

December 2, 1968.

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 2, 1968.

AIR MAIL - REGISTERED
RETURN RECEIPT REQUESTED

United Bancshares of Florida, Inc.,
210 Andalusia Avenue,
Coral Gables, Florida. 33134

Gentlemen:

The Board of Governors of the Federal Reserve System has approved the application of United Bancshares of Florida, Inc., to acquire at least 66-2/3 per cent of the voting shares of United National Bank of Dadeland, Miami, Florida, a proposed new bank. The Board's Order, accompanying Statement, and press release are enclosed.

In connection with the provisions of the Board's Order relating to the periods of time within which the acquisition approved shall be consummated, and United National Bank of Dadeland opened for business, advice of the fact of acquisition and of opening the Bank for business should be given in writing to the Federal Reserve Bank of Atlanta.

As indicated in the Board's Statement, approval of this application does not imply satisfaction with Bancshares' financial condition. While the capital of the subsidiary banks appears satisfactory, assuming the addition of \$2.5 million to the capital of Coral Gables First National Bank as proposed, the abnormally high debt position of the holding company continues to be a cause for concern, and the Board indicated that it will not be disposed to give favorable consideration to additional acquisition proposals until such debt is retired, or at least substantially reduced.

Very truly yours,

(Signed) Robert P. Forrestal

Robert P. Forrestal,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 6, 1968.

STRICTLY CONFIDENTIAL (FR)

Dear Sir:

There are enclosed copies of a press release and proposed amendments to the Board's Regulations G and U in the form in which they will be submitted for publication in the Federal Register. It is anticipated that these materials will be released to the press at 3:30 p.m. on Tuesday, December 10, 1968. Until that time they are, of course, highly confidential and should be available only to those members of your staff who are directly concerned with this matter.

The first problem dealt with by the proposed amendments, whether loans under "equity funding" programs are subject to margin regulation, is a question that has been submitted by a number of Reserve Banks. The other problem was brought to light during inspection of a lender registered pursuant to Regulation G and relates to the Board's "List of Stocks Registered on a National Securities Exchange and of Certain Investment Companies." The enclosed memorandum discusses the background of the first problem.

Equity funding programs involve coordinated acquisition, over a period of time, of mutual fund shares and insurance, the shares being pledged to secure loans to pay the insurance premiums. While it is obvious that, in an economic sense, the loans serve to finance acquisition of the shares, the argument has been made to the Board that they are not under present regulatory language, "for the purpose" of purchasing or carrying the shares, and are not, therefore, subject to margin regulation.

Whatever the merit of such an argument, it is clear that the programs themselves are "securities" within the meaning of the Securities Exchange Act of 1934, so that under the recent amendments to that Act by P.L. 90-437 (the "Over-the-Counter Margin Act") the Board has authority to bring loans to finance the programs under margin regulation. Moreover, an amendment along these lines would be

consistent with the position of the Securities and Exchange Commission, which has ruled that such plans or programs are "securities". In view of the recent proliferation of companies selling equity funding plans; it seems evident that the plans represent a loophole of increasing significance.

A reason for closing this loophole by means of an amendment, rather than by an interpretation, is that an interpretation, which would normally have retroactive effect, would be unfair to persons who have entered into contracts on the assumption that they could complete the investment program involved. This is particularly true in the case of programs involving full payment of sales charges at initiation of the plan (front-end load plans). An amendment, which would affect only future contracts, would seem preferable for this reason.

Turning to the second problem, the Board's list of stocks and investment companies is issued for the use of banks and other lenders pursuant to sections 207.4(b) and 221.3(d) of Regulations G and U, respectively. The investment companies included on the list are those which "customarily" include in their portfolios stocks that are registered on national securities exchanges.

The sections mentioned above provide that in determining whether a loan is for the purpose of purchasing or carrying securities subject to the regulations, a bank or other lender "may rely" upon the Board's list. The Board has interpreted this language to mean that a bank officer or lender must make a reasonable effort to inform himself, and may rely on the list only if unable to obtain information elsewhere. It is believed that most banks have interpreted § 221.3(d) in this light. However, it appears that at least one lender subject to Regulation G has specialized in making low margin loans to purchase shares of mutual funds that were not on the list (because data on the funds was not available when the latest issue was compiled), even though well aware that the funds' portfolios customarily included registered equity securities. Furthermore, a recently completed survey by the Board's staff shows that there are very few mutual funds whose portfolios do not customarily include registered stocks.

The proposed amendments would have the effect of requiring banks and lenders subject to Regulation G to conclude that a stock- (or mutual fund)-secured loan to purchase or carry mutual fund shares is subject to Regulations G or U, as the case may be, unless the fund invests 95 per cent or more of its portfolio in "exempted" securities (chiefly governments). The amendments would eliminate both the list of mutual funds and the list of stocks that are registered on a national securities exchange.

Interested persons have been invited to submit views and comments to the Board through the Reserve Banks. It would be appreciated if your Bank would transmit copies of such comments as they are received. In addition, the Board would appreciate receiving your views on such public comments, as well as your views and recommendations on the proposals themselves.

Very truly yours



Robert P. Forrestal,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS



FEDERAL RESERVE

press release

Item No. 5
12/2/68

For immediate release

December 10, 1968.

The Board of Governors of the Federal Reserve System announced today proposals to broaden the coverage of margin Regulations G and U, especially as they apply to loans on mutual fund shares.

The proposals, on which the Board invited comment through the Federal Reserve Banks from interested persons by January 13, 1969, would bring "equity funding" plans or programs under both regulations.

Regulation G applies to "Credit By Persons Other Than Banks, Brokers, or Dealers for Purpose of Purchasing or Carrying Registered Equity Securities" while Regulation U covers "Credit By Banks for the Purpose of Purchasing or Carrying Registered Stocks." Broker-dealer firms subject to Regulation T--"Credit By Brokers, Dealers, and Members of National Securities Exchanges"--are not permitted to make loans on mutual fund shares.

"Equity funding" programs are investment contracts for the coordinated acquisition of mutual fund shares and insurance or other goods, services, or investments, the shares being pledged to secure loans to pay for the other items specified. Credit extended in connection with such programs offered or sold after January 31, 1969, would be subject to the margin and other requirements of the regulations. Credit extended in connection with programs sold prior to that date would not be affected.

Under the margin requirement currently in effect, the maximum loan value of stock collateral is 20% which means that anyone seeking an extension of credit on \$100 of securities could receive a maximum credit of \$20.

The use of credit in connection with the sale of equity funding programs, which principally involve the purchase of mutual fund shares, represents an avenue for the circumvention of margin rules.

The proposed amendments would also make certain technical changes in the regulations designed to make it easier to determine whether a loan on mutual fund shares is subject to margin requirements. Loans are presently subject to Regulations G and U if the purpose of the loan is to purchase or carry exchange-registered stocks, or bonds convertible into such stocks. Loans to purchase or carry shares in a mutual fund are deemed to be for the purpose of purchasing or carrying such securities, and therefore, subject to margin regulation, if the assets of the fund "customarily include" such stocks or convertible bonds.

To facilitate such determinations, the Board has for some years published a "List of Stocks Registered on a National Securities Exchange and of Securities of Certain Investment Companies," the investment companies on the list being those whose portfolios fall within the regulatory definition. It has become apparent that there are very few mutual funds whose shares would not be subject to margin regulation. Accordingly, the proposed amendment would provide that all investment company shares are subject to Regulations G and U unless 95 per cent of the fund's portfolio is invested continuously in "exempted" (chiefly government) securities. This would eliminate the need for publication

of the investment company list and it would be discontinued as would also the list of registered stocks.

Attached are the texts of the proposed amendments in the form in which they will be submitted for publication to the Federal Register.

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Attachments.

FEDERAL RESERVE SYSTEM

[12 CFR Part 207]

[Reg. G]

CREDIT BY PERSONS OTHER THAN BANKS, BROKERS,
OR DEALERS FOR THE PURPOSE OF PURCHASING OR
CARRYING REGISTERED EQUITY SECURITIES

Notice of Proposed Rule Making

Pursuant to the authority contained in the Securities Exchange Act of 1934 (15 U.S.C. 78g), the Board of Governors of the Federal Reserve System is considering amending Part 207 in the following respects:

1. In section 207.2, paragraph (d)(2) would be amended to read as follows:

§ 207.2 Definitions.

* * *

(d) Registered equity security. * * *

(2) Credit for the purpose of purchasing or carrying (i) any security convertible with or without consideration into a registered equity security or carrying any warrant or right to subscribe to or purchase a registered equity security or any such warrant or right, (ii) any security issued by an investment company registered pursuant to section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8), unless at least 95 per cent of the assets of such company are continuously invested in exempted securities (as defined in 15 U.S.C. 78c(a)(12)), or (iii) credit extended in furtherance of any plan, program, or investment contract offered or sold after January 31, 1969, which provides for the acquisition both of securities described in this paragraph (d) and of goods, services, other securities, or investments, is for the purpose of purchasing or carrying registered

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equity securities, and such security, warrant or right, or such plan, program, or investment contract, shall for purposes of this Part be treated as if it were a registered equity security.

* * *

2. In section 207.4, paragraph (b), relating to the Board of Governors' "List of Stocks Registered on a National Securities Exchange and of Securities of Certain Investment Companies," would be revoked.

The purpose of the change in paragraph (d)(2) of section 207.2 is to establish that credit to finance programs for the combined purchase of registered equity securities (including securities issued by most investment companies registered pursuant to the Investment Company Act of 1940) and goods, services, other securities, or investments ("equity funding") is subject to the regulation. An additional technical change would clarify that credit to purchase or carry securities issued by most investment companies is subject to the regulation. Paragraph (b) of section 207.4 would be revoked as unnecessary and reserved for subsequent use.

This notice is published pursuant to section 553(b) of Title 5, United States Code, and § 262.2(a) of the rules of procedure of the Board of Governors of the Federal Reserve System (12 CFR 262.2(a)).

To aid in the consideration of this matter by the Board, interested persons are invited to submit, in writing, relevant data, views, or arguments. Such material should be submitted to any Federal Reserve Bank, to be received not later than January 13, 1969. Under the Board's rules regarding availability of information (12 CFR 261), such materials will be made available

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for inspection and copying to any person upon request unless the person submitting the material requests that it be considered confidential.

Dated at Washington, D. C., this 10th day of December, 1968.

By order of the Board of Governors.

(Signed) Robert P. Forrestal

Robert P. Forrestal
Assistant Secretary.

FEDERAL RESERVE SYSTEM

[12 CFR Part 221]

[Reg. U]

LOANS BY BANKS FOR THE PURPOSE OF PURCHASING
OR CARRYING REGISTERED STOCKS

Notice of Proposed Rule Making

Pursuant to the authority contained in the Securities Exchange Act of 1934 (15 U.S.C. 78g), the Board of Governors is considering amending Part 221 in the following respects:

Section 221.3 would be amended as follows: Paragraph (b)(3) would be revised, paragraph (d) would be revoked, and paragraph (m) would be revised, as follows:

§ 221.3 Miscellaneous Provisions.

* * *

(b) Purpose of a credit. * * *

(3) Credit for the purpose of purchasing or carrying a security issued by an investment company registered pursuant to section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8), unless at least 95 per cent of the assets of such company are continuously invested in exempted securities (as defined in 15 U.S.C. 78c(a)(12)), and credit extended in furtherance of any plan, program, or investment contract offered or sold after January 31, 1969, which provides for the acquisition both of stock registered on a national securities exchange, any security convertible into such a stock, or any securities described in this paragraph (b)(3), and of goods, services, other securities, or investments, is "credit subject to § 221.1."

* * *

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(d) [revoked]

* * *

(m) A "credit subject to § 221.1" is a credit which is (1) secured directly or indirectly by any stock (or made to a person described in paragraph (q) of this section), (2) extended for the purpose of purchasing or carrying any stock registered on a national securities exchange, or any security convertible with or without consideration into such a stock, or carrying any warrant or right to subscribe to or purchase or carry such a stock, or any such warrant or right (such security, warrant, or right is sometimes referred to as a "security convertible into a stock registered on a national securities exchange"), or any security described in § 221.3(b)(3), and (3) not excepted by § 221.2.

* * *

The purpose of the change in paragraph (b)(3) is to establish that credit to finance programs for the combined purchase of registered equity securities (including securities issued by most investment companies registered pursuant to the Investment Company Act of 1940) and goods, services, other securities, or investments ("equity funding") is subject to the regulation. An additional technical change would clarify that credit to purchase or carry securities issued by most investment companies is subject to the regulation. Paragraph (d), relating to the Board of Governors' "List of Stocks Registered on a National Securities Exchange and of Securities of Certain Investment Companies," would be revoked as unnecessary and reserved for subsequent use. Paragraph (m) would be amended to conform to the change in paragraph (b)(3).

This notice is published pursuant to section 553(b) of Title 5, United States Code, and § 262.2(a) of the rules of procedure of the Board of Governors of the Federal Reserve System (12 CFR 262.2(a)).

To aid in the consideration of this matter by the Board, interested persons are invited to submit, in writing, relevant data, views, or arguments. Such material should be submitted to any Federal Reserve Bank, to be received not later than January 13, 1969. Under the Board's rules regarding availability of information (12 CFR 261), such materials will be made available for inspection and copying to any person upon request unless the person submitting the material requests that it be considered confidential.

Dated at Washington, D. C., this 10th day of December, 1968.

By order of the Board of Governors.

(Signed) Robert P. Forrestal

Robert P. Forrestal,
Assistant Secretary.

TELEGRAM
LEASED WIRE SERVICE

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

December 2, 1968.

CLAY - KANSAS CITY

The Board will interpose no objection to acquisition by the Federal Reserve Bank of Kansas City of an easement from Robert S. Kerr Avenue to the alley at the rear of the Oklahoma City Branch at a price not to exceed \$55,000, as described in your letter of November 22, 1968.

(Signed) Robert P. Forrestal

FORRESTAL

Minimum 33,000
Maximum 55,000

(Signed) Robert P. Forrestal

Robert P. Forrestal,
Assistant Secretary.

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 2, 1968

CONFIDENTIAL (FR)

Mr. William F. Treiber,
First Vice President,
Federal Reserve Bank of New York,
New York, New York. 10045

Dear Mr. Treiber:

As requested in your letter of November 22,
the Board of Governors approves the following special
salary range for the Bank's Medical Director, effective
immediately:

Minimum \$25,000
Maximum 38,000

Very truly yours,

(Signed) Robert P. Forrestal

Robert P. Forrestal,
Assistant Secretary.

1	\$ 3,350	\$ 4,125	\$ 3,350	\$ 4,125	\$ 3,350	\$ 4,125
2	3,350	4,475	3,350	4,475	3,350	4,275
3	3,350	4,700	3,350	4,700	3,350	4,675
4	3,750	5,050	3,750	5,050	3,350	4,700
5	4,100	5,300	4,100	5,300	3,350	5,050
6	4,325	5,675	4,325	5,675	3,350	5,300
7	4,625	6,075	4,625	6,075	3,350	5,675
8	4,925	6,500	4,925	6,500	3,350	6,075
9	5,300	6,950	5,300	6,950	3,350	6,500
10	5,675	7,425	5,675	7,425	3,350	6,950
11	6,050	7,925	6,050	7,925	3,350	7,425
12	6,450	8,450	6,450	8,450	3,350	7,925
13	6,875	9,000	6,875	9,000	3,350	8,450
14	7,325	9,575	7,325	9,575	3,350	9,000
15	7,800	10,175	7,800	10,175	3,350	9,575
16	8,300	10,800	8,300	10,800	3,350	10,175
17	8,825	11,450	8,825	11,450	3,350	10,800
18	9,375	12,125	9,375	12,125	3,350	11,450
19	9,950	12,825	9,950	12,825	3,350	12,125
20	10,550	13,550	10,550	13,550	3,350	12,825
21	11,175	14,300	11,175	14,300	3,350	13,550
22	11,825	15,075	11,825	15,075	3,350	14,300
23	12,500	15,875	12,500	15,875	3,350	15,075
24	13,200	16,700	13,200	16,700	3,350	15,875
25	13,925	17,550	13,925	17,550	3,350	16,700
26	14,675	18,425	14,675	18,425	3,350	17,550
27	15,450	19,325	15,450	19,325	3,350	18,425
28	16,250	20,250	16,250	20,250	3,350	19,325
29	17,075	21,190	17,075	21,190	3,350	20,250
30	17,925	22,150	17,925	22,150	3,350	21,190

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 2, 1968

CONFIDENTIAL (FR)

Mr. Robert E. Moody, Jr.,
First Vice President,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia. 30303

Dear Mr. Moody:

As requested in your letter of November 18, 1968, the Board of Governors approves the following minimum and maximum salaries for the respective grades of the employees' salary structures at the Federal Reserve Bank of Atlanta and Branches, effective January 1, 1969.

Grade	Atlanta- Birmingham		Jacksonville- New Orleans		Nashville	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
1	\$ 3,350	\$ 4,300	\$ 3,350	\$ 4,300	\$ 3,350	\$ 4,125
2	3,350	4,475	3,350	4,475	3,350	4,275
3	3,500	4,700	3,500	4,700	3,350	4,475
4	3,750	5,050	3,750	5,050	3,500	4,700
5	4,100	5,500	4,100	5,500	3,750	5,050
6	4,525	6,075	4,525	6,075	4,100	5,500
7	5,025	6,775	4,975	6,725	4,525	6,075
8	5,625	7,575	5,500	7,400	5,025	6,775
9	6,300	8,500	6,050	8,150	5,625	7,575
10	7,075	9,525	6,650	8,950	6,300	8,500
11	7,925	10,675	7,400	10,000	7,150	9,650
12	8,850	11,950	8,250	11,150	8,100	10,900
13	9,875	13,325	9,200	12,400	9,125	12,275
14	10,975	14,825	10,225	13,775	10,225	13,775
15	12,175	16,425	11,400	15,400	11,400	15,400
16	13,450	18,150	12,650	17,050	12,650	17,050

Mr. Robert E. Moody, Jr.

Salaries should be paid to employees within the limits specified for the grades in which their respective positions are classified. All employees whose salaries are below the minimum of their grades as a result of these structure increases should be brought within appropriate ranges by April 1, 1969.

Very truly yours,

(Signed) Robert P. Forrestal

Robert P. Forrestal,
Assistant Secretary.

Office of the Secretary
Department of the Interior
Washington, D.C.

It is not intended to include a statement with respect to any... in the event of... to section 17 of...
The Secretary

Should you have any questions with regard to... if you will advise the Secretary's Office... 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 your presence with the minutes.

- Chairman Martin _____
- Governor Calderwood _____
- Governor Mitchell _____
- Governor ... _____
- Governor ... _____
- Governor ... _____
- Governor ... _____