

Minutes for March 16, 1960.

To: Members of the Board

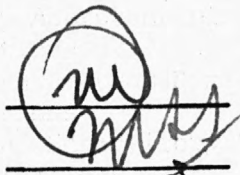
From: Office of the Secretary

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

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

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

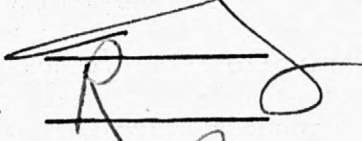
Chm. Martin



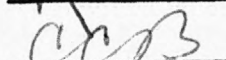
Gov. Szymczak



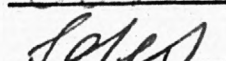
Gov. Mills



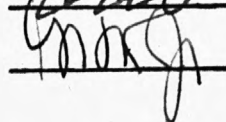
Gov. Robertson



Gov. Balderston



Gov. Shepardson



Gov. King

Minutes of the Board of Governors of the Federal Reserve System
on Wednesday, March 16, 1960. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. King

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Adviser to the Board
Mr. Young, Adviser to the Board
Mr. Shay, Legislative Counsel
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel
Administration
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Conkling, Assistant Director, Division of
Bank Operations
Mr. Daniels, Assistant Director, Division of
Bank Operations
Mr. Hostrup, Assistant Director, Division of
Examinations
Mr. Nelson, Assistant Director, Division of
Examinations
Mr. Thompson, Supervisory Review Examiner, Division
of Examinations

Items circulated to the Board. The following items, which had
been circulated to the members of the Board and copies of which are
attached to these minutes under the respective item numbers indicated,
were approved unanimously:

Letter to the Presidents of all Federal Reserve Banks
regarding attendance of Reserve Bank officers and
employees at schools of banking.

Item No.

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Item No.

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Letter to The Florida National Bank at Orlando, Orlando, Florida, approving its application for fiduciary powers.

Letter to Senator Randolph (Item No. 3). In accordance with the understanding at the meeting on Friday, March 11, a revised draft of reply to Senator Randolph with respect to a letter received by him from State Senator William A. Moreland of West Virginia had been distributed to the members of the Board. Senator Moreland's inquiry related principally to bank service charges.

In response to a question, Mr. Hackley commented that over the years the Board had distinguished between collection charges and bank service charges. Although a collection charge is a type of service charge, the position of the Board had been that there is nothing in the Federal Reserve Act specifically relating to the regulation of service charges as such. Therefore, he would be hesitant about suggesting to Senator Randolph that the Board was now reviewing the question of regulation of such charges.

There being agreement with the view expressed by Mr. Hackley, unanimous approval was given to a letter to Senator Randolph in the form of the revised draft distributed prior to this meeting. A copy of the letter sent pursuant to this action is attached as Item No. 3.

Mr. Conkling then withdrew.

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Request to retain special counsel (Item No. 4). There had been distributed copies of a memorandum from Mr. O'Connell dated March 15, 1960, relating to a request from the Federal Reserve Bank of Atlanta for permission to retain outside counsel in an arbitration proceeding in which the Bank was involved because of a dispute in connection with the addition to the head office bank premises now under construction. The Bank was unable at this time to give an accurate estimate of the fee that would be involved, but expected that it would exceed \$2,500. It was anticipated that a more firm estimate would be available shortly.

Mr. O'Connell recommended that the Board approve an expenditure by the Bank for the employment of counsel, subject to submission, for the Board's prior approval, of the total fee agreed upon by outside counsel and the Bank.

There being no disagreement with the recommendation, unanimous approval was given to the telegram to the Atlanta Reserve Bank of which a copy is attached as Item No. 4.

Messrs. Shay, Farrell, and Daniels then withdrew, and Mr. Noyes, Director, Division of Research and Statistics, entered the room.

Application of First Bank Stock Corporation. On November 25, 1957, the Department of Commerce of the State of Minnesota approved an application to establish a bank in the Sun Ray Shopping Center in St. Paul. On December 30, 1957, First Bank Stock Corporation, Minneapolis, Minnesota, applied to the Board for approval of its acquisition of

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voting shares of this bank (to be known as First Eastern Heights State Bank). Subsequently the Minnesota Department of Commerce, in connection with an application to establish a savings and loan association in the same area, found that there was a reasonable demand in that area for either a savings and loan association or a bank, but not for both, and stated that if the bank were not activated on November 25, 1958, the application for the savings and loan association would be approved. On August 5, 1958, the Board, with Governors Balderston, Mills, and Vardaman dissenting, denied First Bank Stock's application to acquire shares of First Eastern Heights State Bank. While First Bank Stock filed a petition for review of the Board's decision with the United States Circuit Court of Appeals for the Eighth Circuit on October 2, 1958, the opening of the bank could not be delayed. Therefore, Minnesota Mining and Manufacturing Company, which had established and was further developing a large research center adjacent to the bank's site, acquired the stock of the proposed bank, now called Eastern Heights State Bank. A stock purchase agreement was entered into whereby First Bank Stock agreed to acquire the 1,950 shares of the bank owned by Minnesota Mining and Manufacturing Company, subject to approval by the Board. A hearing on the application was held in April 1959 and on September 16, 1959, the Hearing Officer filed a Report and Recommended Decision recommending that the application be denied. Oral argument was held before the Board on January 6, 1960.

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There had now been distributed to the Board, under date of February 18, 1960, a recommendation from the Division of Examinations that the application be denied. It was the conclusion of the Division that the financial condition and history of First Bank Stock and Eastern Heights State Bank were satisfactory, along with their prospects and the character of their management. It was felt that this would also be true if the bank were acquired by First Bank Stock. With respect to the fourth factor required to be considered by section 3(c) of the Bank Holding Company Act, evidence showed that the existing bank was serving its community and area quite adequately. It was the opinion of the Division that advantages which would accrue as a result of transfer of ownership and control to First Bank Stock would not materially affect the convenience, needs, and welfare of the community and area concerned. As to the fifth factor, the Division felt that First Bank Stock's high degree of deposit concentration in the East St. Paul and adjacent area, and the competitive effects that would result from consummation of the proposed transaction, were unfavorable factors not outweighed by factors favoring approval. On balance, the Division concluded that there was less reason to approve the instant application than was the case in First Bank Stock's previous application involving establishment of a new bank.

A memorandum from the Legal Division had been distributed to the Board under date of March 7, 1960. This memorandum noted that as

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a legal matter the present case should not be regarded as a continuation of the previous case, and that the Board's decision in the earlier case would not control its decision in the present case. However, when First Bank Stock's petition in the Court of Appeals for judicial review of the Board's earlier decision was dismissed at the instance of the applicant, it was stipulated that the "record" in that case would be included in the record relating to the present application in the event First Bank Stock should seek judicial review of an adverse decision by the Board. This stipulation seemed to make it quite probable, if not certain, that denial of the present application would lead to litigation. With respect to other aspects of the application, it was noted that there was evidence that the proposed acquisition would lessen existing banking competition and be inconsistent with "preservation of competition" in the area concerned. The question of judgment for the Board therefore was not simply whether or not the transaction would promote the public interest, but whether its probable adverse effect on competition would be outweighed by advantages to the community sufficient to justify approval. With respect to the convenience and needs of the area concerned, the memorandum pointed out that the issue was whether the community would be benefited by transfer of ownership of the now existing bank to First Bank Stock Corporation. As to effects on competition, it was noted that apparently the proposed acquisition would eliminate competition between Eastern Heights and First Bank Stock's two subsidiary banks in

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the East St. Paul area and also with First Bank Stock's largest banking subsidiary in downtown St. Paul. On the other hand, one of the grounds on which the Board's previous denial was based was that the establishment of Eastern Heights State Bank probably would have adverse effects on the growth and competitive strength of the nearby Hillcrest State Bank, but, despite the establishment of the new bank, Hillcrest had prospered and grown considerably. As to the relevancy of First Bank Stock's history as a "nonaggressionistic, nonexpansionistic" organization, the memorandum pointed out that the statute requires the Board to consider whether a particular stock acquisition will expand the size or extent of the holding company system beyond limits consistent with the preservation of competition, although in certain previous cases the Board had indicated that some weight might properly be given to the past history of the holding company concerned. Other points covered were whether a lessening of competition must be "substantial" in order to warrant disapproval of an application and the extent to which weight should be given to competition provided by savings and loan associations, credit unions, and small loan companies. As to First Bank Stock's argument that ownership of Eastern Heights State Bank by a company with no previous banking experience constituted a reason for permitting the proposed acquisition, the memorandum pointed out that if this argument were to prevail, avoidance of the Bank Holding Company Act would be possible. A holding company would need only to arrange for acquisition of control of a bank

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by a nonbanking corporation and then cite the "evil" of such control as a reason for approval of the holding company's acquisition of the bank. In summary, it was suggested that the Board's decision must depend upon whether in the Board's judgment the lessening of competition resulting from the proposed acquisition would be outweighed by benefits relating to the needs or convenience of the community. It seemed likely that approval of the application would be upheld by a reviewing court, particularly in view of the present lack of strong evidence that the transaction would adversely affect the Hillcrest State Bank. On the other hand, there seemed to be less support for approval than in the earlier case insofar as there was less evidence that the transaction would contribute to the needs and convenience of the community. In the opinion of the Legal Division, denial of the application would be sustained by a reviewing court as being supported by substantial evidence.

At the request of the Board, Mr. Solomon reviewed the history of the case and stated the conclusions of the Division of Examinations, his comments being based on the memorandum that had been submitted by that Division.

Mr. Hackley commented that it seemed fairly certain that the Board's decision, if adverse, would result in litigation, and that even a favorable decision might lead to litigation because the Hillcrest State Bank and others might feel that they were aggrieved persons and entitled to judicial review. In reviewing some of the aspects of the

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case, as stated in the memorandum from the Legal Division, he pointed out that the Hearing Officer and Counsel for the applicant had elected to debate the question of the appropriate fundamental approach to the Bank Holding Company Act, but that the question need not be decided in this case because there were both favorable and unfavorable considerations relating to the factors of lessening of competition and benefit to the public. A favorable consideration in the earlier case, namely, the needs of the community, appeared to have been weakened because the bank then proposed to be established was now in existence, and State authorities had expressed the view that the needs of the community were being served adequately. On the other hand, a principal ground on which the Board turned down the earlier application, namely, the possible adverse effect on Hillcrest State Bank, also had been weakened because Hillcrest had been in competition with the new bank for a period of more than a year and nevertheless had prospered. However, according to the hearing record, competition would be affected by the proposed acquisition because existing competition between Eastern Heights State Bank and certain subsidiaries of the holding company would be diminished.

After Mr. Hackley had commented further on other points covered in the memorandum from the Legal Division, Governor Balderston asked how, if the Board's decision were made the subject of litigation, a court would be fully apprised of some of the distinctions brought out in the memorandum. Mr. Hackley replied that these points probably could be

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taken care of adequately in the Board's statement on this case. Even though this was a separate case from the earlier application, it would seem appropriate to point out in the statement the distinctions between the two cases.

The Chairman then turned to the members of the Board and Governor Mills, who spoke first, recalled that he was one of the Board members who favored granting the application of First Bank Stock Corporation to establish and own the proposed First Eastern Heights State Bank. His reasons in that instance were based on the fact that the Board should properly look at the area in which the applicant was intending to expand and should concentrate on the fact that the proposal encompassed a metropolitan area, and not penetration of the holding company into a new area of the State or the over-all area in which First Bank Stock Corporation operates. In view of those considerations, he had reached the conclusion that the earlier application was tantamount to the kind of application that would be presented to the Board if a commercial bank in a State permitting branch banking were to seek permission to establish a branch. Viewed in that light, there were persuasive reasons, in his opinion, to approve the application of First Bank Stock Corporation to own and operate First Eastern Heights State Bank. The area concerned was an integral part of the trading area of St. Paul, and the bank in question would not have been of a type that would unduly limit competition or affect unfavorably the operations of the Hillcrest State

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Bank and the other independent commercial banks operating in the general area. As he reviewed the material that had been submitted to the Board at this time, the previous record, and the record of the hearing at which both First Bank Stock and Hillcrest State Bank were represented, his opinion had been strengthened beyond his original position. Accordingly, he would grant the application of First Bank Stock to own and operate the now-established Eastern Heights State Bank. Contrary to the positions of the Legal and Examinations Divisions, he was convinced in his own mind that the instant application could not be separated from the original application, for the cogent reason that First Bank Stock Corporation on the occasion of denial of the first application, agreed not to seek a judicial review of the denial in that case under a stipulation with the Board that a new application, namely, the application to operate and own the Eastern Heights State Bank, should be considered an extension of the original application and not an entirely new and separate subject. He felt that in equity to First Bank Stock Corporation the Board had a fundamental obligation to observe that stipulation, and in doing so to reach a finding as to whether or not there were grounds why First Bank Stock should be prohibited from acquiring stock of the Eastern Heights State Bank. In that connection, all of the factors that the Board is required to consider under the provisions of the Bank Holding Company Act, up to the fifth factor, were passed as entirely satisfactory. In his judgment, the fifth factor

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should also be decided favorably by the Board, in that the operation of Eastern Heights State Bank by First Bank Stock Corporation would be consistent with the reasoning he expressed on the original application. Furthermore, there was the fact that the Eastern Heights State Bank had proven its worth by developing business in the area, proving itself to be self-sufficient, and in the process of doing so clearly developing the fact that there was a need for a bank in the area. Also, developments subsequent to First Bank Stock's application showed that the Hillcrest State Bank had progressed and had in no way suffered from the establishment of the Eastern Heights State Bank. Furthermore, it should be recognized that Minnesota Mining and Manufacturing Company became the owner of Eastern Heights State Bank through adventitious circumstances. It would like to be relieved of the responsibility of operating the bank and had elected to transfer ownership to First Bank Stock. In summary, it was his judgment that the application should be decided favorably and that the Board would be open to charges of arbitrary and capricious action if it were decided unfavorably.

Governor Robertson said he agreed completely with the conclusions reached by the Division of Examinations and the Legal Division. Accordingly, he would deny the application.

Governor Shepardson said that when the original application came before the Board he was troubled by the argument then advanced, and also advanced in the present case, regarding the nonaggressionistic

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expansion of the applicant. However, because of the applicant's dominant position in the area concerned, it seemed to him that the original application should be denied, and he took that position. At present, it seemed to him that the situation argued more strongly for denial. The needs of the community had been met by the establishment of the new bank and, although the present owners were not particularly interested in continuing to operate the bank, there did not appear to be any reason why they could not dispose of the stock to parties other than the applicant holding company. If the earlier action was justified, and he thought it was, similar action was further justified at this time.

Governor King, who was not a member of the Board when the original application was decided, said that he had tried to view what he might have done had he participated in the decision and that possibly he would have leaned in the direction of approval. He would lean somewhat that way on the present application, except that approval of the application would appear to open up a way of circumventing the law, namely, by having a nonbanking corporation establish a bank and then getting approval for a holding company to acquire the shares from that corporation. It would be unfortunate, he felt, if approval in this case were taken as a precedent and established a pattern. In his own thinking, that was the only strongly adverse factor, and perhaps it could be said that this factor did not carry enough weight. However, approval might cause confusion and mislead persons into thinking that

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this was a way to circumvent unfavorable Board action. In his view, litigation of this case perhaps would be desirable in order to provide guidance for the future.

Governor Szymczak said that he would deny the application.

Governor Balderston pointed out that he was one of the Board members who dissented from the decision in 1958 on the original application of First Bank Stock Corporation. When that case was before the Board, he felt that the critical questions were: (1) whether the convenience, needs, and welfare of this growing community should go unserved, awaiting an independent bank of which there was no prospect, and (2) whether approval of the acquisition of the shares of the proposed bank would expand the size and extent of First Bank Stock's operations beyond limitations consistent with adequate and sound banking and the preservation of competition. His own conclusion had been in the negative on both counts, and therefore he dissented from the Board's decision. Between that time and the present, the needs of the community seemed to have been met by the organization of a bank by Minnesota Mining and Manufacturing Company with the technical assistance of First Bank Stock Corporation. Therefore, the current proposal appeared to him substantially different from the original proposal, and he found it necessary to change his position. He could not argue the case on the needs of the community, even though the captive relationship of any bank to a manufacturing corporation is not a desirable one. The new bank was meeting the needs

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of the community, and it offered some recognizable competition to First Bank Stock Corporation. Were First Bank Stock permitted to acquire the existing bank, there would clearly be some lessening of competition. Accordingly, he would vote to deny the current application.

Chairman Martin said that he also would vote to deny the application. The only thing he did not like in the picture was ownership of the existing bank by a manufacturing corporation, but that was not the real problem at issue.

In this connection, Mr. Hackley commented that while no one could predict what might happen, the fact that Minnesota Mining and Manufacturing had had no offers to purchase its stock probably was due to the fact that the option of First Bank Stock to acquire the shares was well known. If the Board denied the current application, Minnesota Mining and Manufacturing might be able to sell its stock to other parties.

Mr. Hackley then referred again to the fact that when the litigation instituted by First Bank Stock was dismissed, it was with a stipulation that in the event there should be judicial review of a subsequent adverse decision by the Board on a second application, the record on the first application would become part of the record on the second. He did not think this was understood as intending that the two applications were to be the same case. However, it did mean that if the matter should go to court, the record on the first case would

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become part of the record on the second case. He thought that this was desirable for it would afford a complete picture of the two cases.

Mr. Hackley also commented that this was a case in which careful drafting of the Board's order and statements would require more than the usual time for preparing such documents.

Thereupon, it was agreed, with Governor Mills dissenting, to deny the application of First Bank Stock Corporation to acquire shares of the Eastern Heights State Bank, and the Legal Division was requested to prepare an order and statement for the Board's consideration. It was understood that a dissenting statement also would be drafted.

Messrs. Hostrup and Thompson then withdrew from the meeting.

Application of American Trust Company (Items 5 and 6). There had been circulated to the members of the Board a file relating to the application of American Trust Company, San Francisco, California, for permission to operate the present head office and 13 branches of Wells Fargo Bank, San Francisco, as branches of Wells Fargo Bank American Trust Company, incident to the proposed merger of the two institutions. In a memorandum dated February 11, 1960, contained in the file, the Division of Examinations concurred in the favorable recommendation of the Federal Reserve Bank of San Francisco.

There had been distributed to the members of the Board in this connection copies of a letter dated March 7, 1960, from Mr. Robert A. Bicks, Acting Assistant Attorney General, Antitrust Division, Department of Justice, submitting a statement in connection with the application

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of American Trust Company. The conclusion presented in the statement was that the proposal to unite the existing offices of Wells Fargo with those of American Trust would have the effect of substantially lessening competition and unreasonably limiting competition in banking. The view was stated that to grant the pending application before the Board would be contrary to the public interest and the sound development and progress of banking in that it was unnecessary to the maintenance of sound banking structures and, on the contrary, would be destructive of fair competition in banking.

Copies of a draft of reply to the Department of Justice had also been distributed to the Board. The reply would point out that under present law the proposed merger did not require the Board's approval and that the Board's only jurisdiction in the matter derived from its authority to pass upon the establishment of branches by a State member bank. Accordingly, the Board felt that in this case it could not under existing law properly consider the competitive effects of the merger itself. However, the Board had carefully considered the possible effects on competition of the operation by the merged institution of the branches to be acquired by it, and in doing so had taken into account the differing circumstances relating to each of the branches, including the location of competing offices of large banks in or near the community in which the branch would be located. The Board had also considered the extent to which the public interest would be served by banking facilities

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at the sites of the offices to be acquired by American Trust Company. On the basis of all the facts and circumstances, the Board had concluded that the establishment of such branches would not have such adverse effects on banking competition as to warrant disapproval.

The Department of Justice had sent a copy of its letter to the Board of March 7, 1960, to American Trust Company. In recognition thereof, American Trust Company wrote to the Board under date of March 11, 1960, and incorporated as part of its reply the material contained in its letter to the Board on February 24, 1960, consisting of a copy of its letter of February 11, 1960, to the Department of Justice which presented specific information requested by the Department in connection with the proposed merger. Copies of the two letters from American Trust Company had also been distributed to the Board.

At the request of the Board, Mr. Solomon dealt briefly with the nature of the application of American Trust Company and the size of the two banks concerned. He brought out that in this situation the Board had no jurisdiction whatever over the merger itself, its jurisdiction relating only to the establishment of branches by the surviving institution. Careful consideration had been given by the Board's staff to the branches concerned, not only in the aggregate but also as to each individual situation. While considerations varied somewhat from one branch to another, the Division of Examinations concluded that it would be appropriate to approve the establishment and operation of each of

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the fourteen branches. The matter was also reviewed in the light of the two letters from American Trust Company dated February 24 and March 11, 1960, and their enclosures, and it appeared that the considerations urged by the Department of Justice were directed essentially toward the merger itself rather than to the situation with respect to the branches. Accordingly, analysis of the memorandum from the Justice Department had not changed the recommendation of the Division of Examinations that the application of American Trust Company be approved.

Mr. Hackley said that the letter to the Justice Department was intended primarily to make clear the Board's authority for considering the competitive effects of the branches, as distinguished from the effects of the merger itself. The letter would point out that the Board had taken into consideration not only the local competitive effects of the establishment of each branch but the situation with regard to each branch in the light of the size of the institution resulting from the merger. In that sense, the merger would be a pertinent consideration. However, as the letter would bring out, the Board had considered the situation with regard to each branch in the light of the much larger size of the resulting institution.

The Chairman then turned to the members of the Board, and Governor Mills stated that he would favor approving the application of American Trust Company and also the draft of reply to the letter from the Department of Justice.

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Governor Robertson stated that he had given a great deal of consideration to this matter. If the Board had authority to pass on the proposed merger, he was inclined to feel that his vote would be in opposition. At present, the Board had no authority with respect to the merger, but bank merger legislation was now under consideration by the Congress. The Senate had passed a bill, and a House Subcommittee had voted out a different version. It appeared possible, therefore, that there would be legislation shortly that would be applicable to a case of this kind. Accordingly, he had considered carefully whether the Board would be justified in passing on this case in the light of the current legislative situation, but he had finally concluded that the Board would not be justified in holding up its decision because there was no way of knowing how long it would be before bank merger legislation was enacted by the Congress, if, in fact, it was enacted at all.

With respect to the branches, Governor Robertson said that he had also experienced difficulty. After going over all of the available information with respect to each individual branch, however, he could not find a basis on which to deny continuation of existing banking facilities in the particular locations. If the question had been one of establishing new branches at points where there were no existing facilities, the situation would be different, but facilities had already been provided for the public

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in the particular communities, and the question was one of taking the existing facilities away. Consequently, he had concluded that the application of American Trust Company should be approved. He agreed in substance with the position taken in the proposed letter to the Justice Department, but at the proper time he would like to suggest certain changes that he thought would strengthen the letter.

Governor Shepardson said he had somewhat the same feeling as expressed by Governor Robertson on the general bank merger situation. Under the present circumstances, however, it seemed to him, after considering the information relating to the branches in question, that the application of American Trust Company should be approved.

The other members of the Board also indicated that they would favor approving the application.

Accordingly, unanimous approval was given to the letter to American Trust Company of which a copy is attached as Item No. 5, for transmittal through the Federal Reserve Bank of San Francisco

Governor Robertson then presented his suggestions with respect to the proposed letter to the Justice Department. The Legal Division expressed agreement with certain of these suggestions and offered comments on the remaining suggestions that were acceptable to Governor Robertson.

Unanimous approval then was given to a letter to the Department of Justice in the form attached as Item No. 6, with the understanding that a copy would be sent to the Federal Reserve Bank of San Francisco, but not to American Trust Company.

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In view of a comment by Mr. Molony that a member of the press representing a San Francisco newspaper had asked to be advised when the Board reached its decision on the application of American Trust Company, consideration was given to the procedure to be followed in handling this request and other possible inquiries.

After discussion, it was agreed that the Secretary of the Board would get in touch by telephone with the President of the Federal Reserve Bank of San Francisco, advise him of the Board's favorable action on the application of American Trust Company, and request him to notify the member bank accordingly. President Mangels would also be apprised of the inquiry received by Mr. Molony, and the Secretary of the Board would state to him that, if American Trust Company had no objection, the member of the press who had inquired, and any others having a legitimate interest who might inquire, would be informed by Mr. Molony later today that the Board had acted favorably on the application. It was understood, also, that a copy of the letter to the Department of Justice would be sent to Mr. Mangels over the leased wire, with the advice that the letter was not to be released outside the Reserve Bank in the absence of further instruction.

All of the members of the staff except Mr. Johnson then withdrew from the meeting.

Approval of salary for officer of Richmond Reserve Bank

(Item No. 7). There had been distributed to the members of the Board

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copies of a memorandum from the Division of Personnel Administration dated March 15, 1960, recommending favorably with regard to the request of the Federal Reserve Bank of Richmond for approval of the payment of salary to Benjamin U. Ratchford, who had been appointed Vice President in charge of research, at the annual rate of \$22,500 for the period August 1 through December 31, 1960.

The Secretary was informed later by Governor Shepardson that the Board had approved the payment of salary to Mr. Ratchford at the rate indicated for the period specified. A copy of the letter sent to the Richmond Reserve Bank pursuant to this action is attached as Item No. 7.

The meeting then adjourned.

Secretary's Notes: Pursuant to the recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following items affecting the Board's staff:

Appointment

Gary P. Smith as Legal Assistant in the Legal Division, with basic annual salary at the rate of \$5,985, effective the date he assumes his duties.

Salary increases, effective March 20, 1960

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Office of the Secretary</u>			
Katherine Ellis Olson, Records Clerk		\$3,945	\$4,040

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Salary increases, effective March 20, 1960 (continued)

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Bank Operations</u>			
Doris J. Hodge, Secretary		\$4,340	\$4,490
Kathryn A. Jackson, Statistical Clerk		4,340	4,490
<u>Examinations</u>			
Joseph B. Dunn, Assistant Federal Reserve Examiner		6,285	6,435
<u>Administrative Services</u>			
Charlie H. Ward, Laborer		3,245	3,340

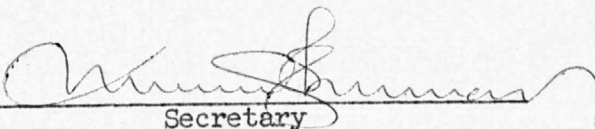
Transfer

Jeanne A. Chambers, from the position of Clerk-Stenographer in the Division of Personnel Administration to the position of Stenographer in the Legal Division, with no change in basic annual salary at the rate of \$3,755, effective March 14, 1960.

Acceptance of resignation

Constance A. Dyer, Secretary, Office of the Secretary, effective April 3, 1960.

Governor Shepardson also approved today on behalf of the Board letters to the Federal Reserve Banks of Boston and Cleveland (attached Items 8 and 9) approving the appointments of Donald D. Gerry as assistant examiner and Harry W. Huning as examiner, respectively.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

S-1733

Item No. 1
3/16/60ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 17, 1960

Dear Sir:

This letter relates to attendance of officers and employees of the Federal Reserve Banks at schools of banking. In accordance with the objectives of the current review of the Loose-Leaf Service, the instructions have been revised to consolidate current references and to eliminate a requirement of an annual report to the Board on attendance, which report is no longer considered necessary.

The Board reaffirms its belief that officers and employees of the Federal Reserve Banks should be encouraged to participate in banking schools that are sponsored, conducted, or approved by banking associations. Therefore, there is no objection to granting, in addition to annual vacation, a leave of absence with pay of such duration as may be necessary to enable them to attend the resident sessions of such schools.

Also, the Board is of the opinion that there should be a System policy regarding the payment of expenses for attendance at these schools that is as uniform in its application as may be practicable. Therefore, the Board will interpose no objection to each Reserve Bank paying, on behalf of officers and employees selected to attend, cost of textbooks, all necessary fees, transportation and other travel expenses to and from the school, gratuities billed by the school, diploma fees, graduation suit rental, and dormitory and dining hall charges (including out-of-pocket meal expenses incurred by students required to be at the school one or two days in advance of the regular session). These provisions are in line with generally prevailing practice according to information provided by the Reserve Banks. The Board believes that voluntary contributions for class gifts, photographs, and other mementos, and gratuities other than those billed are not necessary expenses and, accordingly, should not be reimbursed to the student. This, too, is in line with prevailing practice at most Banks. Reasonable expenditures for class pins, emblems, or other tangible marks of recognition to graduates may be considered as directly related to the conduct of the Bank's affairs if authorized as part of the employee relations program approved by the directors.

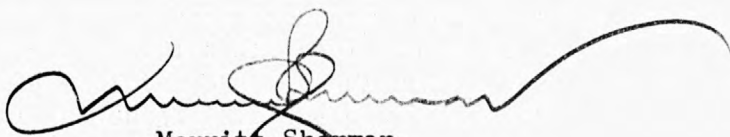
With regard to a thesis written for the purpose of meeting the graduation requirements of a banking school, it is not required that a copy of the thesis be submitted to the Board of Governors. However, the officer or employee should make it entirely clear in the preface or foreword that he assumes full responsibility for the statements included, that any opinions expressed are his own personal views formulated on the basis of an independent study of the subject, and that the thesis does not necessarily express or reflect the opinions or policies of the Federal Reserve Bank or the Board of Governors.

It is assumed that reasonable clerical and other assistance will be provided the student by the Reserve Bank in preparing and duplicating the thesis.

Concerning reports previously submitted by the Federal Reserve Banks advising of the total number of officers and employees proposed to be sent to the various banking schools, the Board believes the necessity for the report no longer exists, and this requirement is therefore eliminated.

This letter supersedes and cancels the Board's letters of April 21, 1939 (S-160, F.R.L.S. #9058) and February 26, 1953 (S-1489, F.R.L.S. #9092.1).

Very truly yours,



Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25. D. C.

Item No. 2
3/16/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 16, 1960.

Board of Directors,
The Florida National Bank at Orlando,
Orlando, Florida.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants The Florida National Bank at Orlando, Orlando, Florida, authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Florida. The exercise of such rights shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers that your bank is now authorized to exercise will be forwarded in due course.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 3
3/16/60

OFFICE OF THE CHAIRMAN

March 16, 1960.

The Honorable Jennings Randolph,
United States Senate,
Washington 25, D. C.

Dear Senator Randolph:

This is in reply to your letter of March 1 forwarding a letter written to you by West Virginia State Senator William A. Moreland.

Banks render important services to the public, and for this reason they are subject to Governmental supervision, either Federal or State, in order to protect depositors and to protect various aspects of the public interest. Nevertheless, like other business organizations, banks can hardly be expected to provide services such as the maintenance of checking account facilities without making reasonable charges for those services.

Banks look upon potential earnings from loans and investments of demand deposit accounts as being limited by the fluctuations in balances resulting from deposits to, and checks drawn upon, such accounts. The quantity of these transactions directly affects a bank's expenses and may be out of proportion to the possible income on the loanable balance.

It is in this light that banks impose service charges. Normally, the amount of such charges reflects analysis of the cost of the service rendered in maintaining the account and the benefit to the bank of the particular account, both of which vary considerably among different accounts and among different banks. The amount of the charges also may reflect competitive influences.

Section 16 of the Federal Reserve Act, which applies only to member banks of the Federal Reserve System, provides that "nothing herein contained shall be construed as prohibiting a member bank from charging its actual expense incurred in collecting and remitting funds." It also provides for the fixing by the Board of Governors of "charges to be collected by the member banks from . . . patrons whose checks are cleared through the Federal Reserve Bank." While it specifically applies to collection charges, this provision might be considered as relating also to bank service

The Honorable Jennings Randolph -2-

charges. However, in view of the express provision that a member bank may not be prohibited from recovering its actual expense, and since these expenses vary among individual banks, among different parts of the country, and among different items handled, it has not been deemed practicable by the Board to fix a rule of general application.

Senator Moreland's letter also requests information relative to the First National Bank of Morgantown, West Virginia, although he does not indicate what type of information is desired. Since all national banks are under the primary supervision of the Comptroller of the Currency, it may be that you will wish to request information from the Comptroller. It may be noted that the other bank in Morgantown to which Senator Moreland refers is not a member of the Federal Reserve System.

We hope that the information furnished in this letter may be helpful to you in replying to Senator Moreland.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

TELEGRAM
LEASED WIRE SERVICEItem No. 4
3/16/60BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

March 16, 1960

Patterson - Atlanta

Reurtel March 14. Authority granted FRB Atlanta to employ firm of Troutman, Sams, Schroder & Lockerman to represent Bank in arbitration proceedings, subject to submission for Board's prior approval of total fee agreed upon.

(Signed) Merritt Sherman

Sherman .

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 5
3/16/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 16, 1960.



Board of Directors,
American Trust Company,
San Francisco 20, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco and subject to circumstances described therein, the Board of Governors of the Federal Reserve System approves the establishment of branches by Wells Fargo Bank American Trust Company at the following locations provided the branches are established within six months from the date of this letter:

4 Montgomery Street, San Francisco,
Market Street at Grant Avenue, San Francisco,
301 "G" Street, Antioch,
1026 Sixth Avenue, Belmont,
1935 University Avenue, Palo Alto,
718 Santa Cruz Avenue, Menlo Park,
Broadway and Main Street, Redwood City,
1390 Woodside Road, Redwood City,
787 Laurel Street, San Carlos,
205 Kenwood Way, South San Francisco,
1172 "A" Street, Hayward,
31045 Mission Boulevard, Hayward,
2120 El Camino Real, Santa Clara, and
1332 N. Main Street, Walnut Creek, California.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 6
3/16/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 16, 1960

Mr. Robert A. Bicks,
Acting Assistant Attorney General,
Antitrust Division,
Department of Justice,
Washington 25, D. C.

Dear Mr. Bicks:

This refers to your letter of March 7, 1960, submitting copies of a statement with respect to an application by American Trust Company, San Francisco, California, for approval by the Board of Governors of the establishment of certain branches in connection with the proposed merger of Wells Fargo Bank with American Trust Company. The Board has carefully considered the analysis contained in the Department's statement and the view therein expressed that approval of this application "will substantially lessen competition in, and will constitute an unreasonable restraint on, commercial banking."

In this case, as in all other cases involving the establishment of branches by State member banks, the Board has considered, among other things, the probable competitive effects of the establishment of the proposed branches. As pointed out in the statement enclosed with your letter, the authority of the Board to consider the competitive effects of the establishment of branches in a case of this kind was upheld by the United States District Court for the District of Columbia in Old Kent Bank and Trust Company v. Martin (172 F. Supp. 951 (1959)).

As you know, the proposed merger in this case does not, under present law, require the Board's approval. The Board's only jurisdiction in the matter derives from its authority under the Federal Reserve Act to pass upon the establishment of branches by a State member bank. Consequently, the extent, if any, to which the merger itself may eliminate competition is not a factor that the Board may properly consider in determining whether or not to approve the proposed branches.

In this connection, the distinction between the Board's authority with respect to bank mergers and its authority with respect to branches was pointed out in a memorandum filed in the above-mentioned

Mr. Robert A. Bicks

-2-

Old Kent litigation in opposition to the plaintiff's cross motion for summary judgment. At page 11 of the memorandum, it was observed that the Board's authority with respect to branches "enables the Board to consider only the effect of expansion of a State member bank through additional offices; it does not entitle the Board to consider the even more far-reaching effects of a merger itself upon banking competition and the public interest." The differing competitive effects of (a) a bank merger, and (b) the establishment of branches incidental to a merger, were described as follows in a separate memorandum filed on behalf of the Board in the Old Kent case in reply to a memorandum submitted by the National Association of Supervisors of State Banks:

"A merger itself results in the elimination of an existing bank and the assumption by the surviving bank of the assets and liabilities (including the deposits) of the merging bank. Whether or not the surviving bank establishes branches at locations of former offices of the merging bank has no immediate effect on the amount of the assets and liabilities of the surviving bank, although conceivably some deposits acquired from the merging bank may be lost if branches are not established at all former offices of that bank. The merger itself may have adverse competitive effects by increasing the surviving bank's proportion of deposits and loans of banks in the community. The establishment of branches through the merger may have quite distinct adverse competitive effects by widening the geographic area of the surviving bank's operations and thus enhancing its potential ability to obtain new customers, both depositors and borrowers.

"* * * the Board had no power under the law to prevent the merger by which Old Kent acquired about 55 per cent of the total deposits of all banks in the greater Grand Rapids area."

With these considerations in mind, the Board has considered the views expressed in the statement submitted with your letter in relation to the competitive effects of establishment of the branches here proposed. However, the Board feels that here, as in the Old Kent case, it may not, under existing law, properly consider the competitive effects of the merger itself. In this connection, it is noted that the statement enclosed with your letter expresses the view that competition between the two banks here involved is substantial and that it "will be eliminated by the proposed merger", and also that the transaction would "destroy existing competition between two healthy banks as well as preventing potential competition and growth by them

Mr. Robert A. Bicks

-3-

as separate competitive entities." Any such consequences would, of course, flow from the merger rather than the establishment of branches.

As indicated in the memorandum in support of defendant's motion to dismiss the suit in the Old Kent Bank case (page 58), the Board, in a case of this kind, considers the application as in effect an application by the bank resulting from the merger for permission to establish the branches involved; in other words, the size of the resulting bank has a bearing upon the competitive potential of the proposed branches. Accordingly, the Board has carefully considered the possible effects on competition of the operation by the merged institution of the branches to be acquired by it. In doing so, the Board has taken into account the differing circumstances relating to each of the branches, including the location of competing offices of large banks in or near the community in which the branch would be located. The Board has also considered the extent, if any, to which the public would be served by banking facilities at the sites of the offices to be acquired by American Trust Company.

On the basis of all the facts and circumstances, the Board has concluded that the establishment of such branches would not have such adverse effects on banking competition as to warrant disapproval. Accordingly, the Board has approved American Trust Company's application.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25. D. C.

Item No. 7
3/16/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 16, 1960



CONFIDENTIAL (FR)

Mr. Alonzo G. Decker,
Chairman,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Decker:

The Board of Governors approves the payment of salary to the following officer of the Federal Reserve Bank of Richmond for the period August 1 through December 31, 1960, at the rate indicated, which is the rate fixed by your Board of Directors as reported in your letter of March 10, 1960:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Benjamin U. Ratchford	Vice President	\$22,500

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 8
3/16/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 16, 1960.

CONFIDENTIAL (FR)

Mr. Benjamin F. Groot, Vice President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Groot:

In accordance with the request contained in your letter of March 8, 1960, the Board approves the appointment of Donald D. Gerry as an assistant examiner for the Federal Reserve Bank of Boston.

It is noted that Mr. Gerry is indebted to The Arlington National Bank, Arlington, Massachusetts, in the amount of \$6,300. Accordingly, the Board's approval is given with the understanding that Mr. Gerry will not participate in any examination of The Arlington National Bank until his indebtedness has been liquidated.

Please advise as to the date on which the appointment is made effective.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Item No. 9
3/16/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 16, 1960.

Mr. Paul C. Stetzelberger, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Stetzelberger:

In accordance with the request contained
in your letter of March 7, 1960, the Board approves
the appointment of Harry W. Huning as an examiner
for the Federal Reserve Bank of Cleveland, effective
April 1, 1960.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

