

Minutes for July 13, 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

Handwritten initials and signatures on lines next to the names of the board members. The initials are: Chm. Martin (M), Gov. Szymczak (SS), Gov. Mills (M), Gov. Robertson (R), Gov. Balderston (CB), Gov. Shepardson (S), and Gov. King (K).

Minutes of the Board of Governors of the Federal Reserve System on  
Wednesday, July 13, 1960. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Hackley, General Counsel  
Mr. Nelson, Assistant Director, Division  
of Examinations  
Mr. Goodman, Assistant Director, Division of  
Examinations  
Mrs. Semia, Technical Assistant, Office of the  
Secretary  
Mr. Hooff, Assistant Counsel

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

	<u>Item No.</u>
Letter to the Valley Bank and Trust Company, Springfield, Massachusetts, approving an extension of time to establish a branch at 82 North Elm Street, Westfield.	1
Letter to The Chase Manhattan Bank, New York City, approving the continued operation of its branches at 37 Wall Street and 43 Exchange Place until December 31, 1960.	2
Letter to the Nassau Trust Company, Glen Cove, New York, approving the establishment of a branch at 97 Forest Avenue.	3
Letter to the Bankers Trust Company, New York City, approving the establishment of a branch at 280-290 Park Avenue.	4

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	<u>Item No.</u>
Letter to the First Bank and Trust Company of South Bend, South Bend, Indiana, approving the establishment of a branch in Roseland.	5
Letter to the Commercial State Savings Bank, Greenville, Michigan, approving the establishment of a branch at 112 West Second Street, Trufant.	6
Letter to the County Bank of Santa Cruz, Santa Cruz, California, approving the establishment of a branch in Aptos.	7
Letter to the Federal Deposit Insurance Corporation regarding the application of Home Bank, Compton, California, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	8
Letter to Bank of America, New York City, transmitting reports of examination of its Guatemala Branch and La Torre Agency, both in Guatemala City, Guatemala, as of the close of business April 23, 1960.	9

Proposed national bank at McLean, Virginia. A draft of letter to the Comptroller of the Currency had been circulated in regard to an application to organize a national bank at McLean, Virginia. The proposed letter recommended disapproval of the application on the ground that there did not appear to be sufficient need for a new bank, in view of the fact that two branches of other banks were providing banking services for the immediate area. The Federal Reserve Bank of Richmond had recommended disapproval of the application on the same ground.

Governor Robertson expressed disagreement with the recommendation for disapproval. He stated that every factor was favorable, and he thought it was inconsistent to say that there was no need for the

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proposed institution and at the same time to say, as did the report on the application, that the bank could operate profitably. The intended management of the proposed bank was good and he did not believe that the Board would be justified in turning down the organizers who were willing to risk their investment.

Governor Mills said that he agreed with the view expressed by Governor Robertson. He observed that the Board had sometimes disapproved branch applications that it considered premature in order to avoid having a branch pre-empt a good location. In the present case he thought the Board would not be justified in recommending disapproval of an application by a group of responsible people who were willing to risk their investments on the prospect that a growing area would continue to grow and would comfortably support the proposed institution.

Mr. Nelson stated that the Vienna Trust Company had a branch in McLean and the Fairfax County National Bank was in the process of opening one. It was believed that those two offices could handle the available business, in addition to which there were offices of three other banks within four miles of McLean. In spite of the fact that it was estimated that the proposed bank could obtain \$4 million in deposits within three years, he felt that there was a lack of need for it because the present offices could take care of the community.

Governor Robertson reviewed various information that had come to him that indicated that substantial expansion could be expected



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in the McLean area during the next few years, especially because of the coming occupation of the Central Intelligence Agency's headquarters now under construction and the opening of the new airport at nearby Chantilly. He thought there was no basis for denying the opportunity to the investors who believed that the expected expansion presented a good prospect for a bank, especially since approval of their application would not hurt any other bank.

Mr. Nelson agreed that considerable growth was expected in the McLean area and that in the future there would be room for another bank, but he thought that as of now there was not a real need. As a matter of fact, he thought that the opening of the new branch of the Fairfax County National Bank would cause a slightly over-banked condition in the immediate future. He pointed out that many of the people who live in the McLean area work in Washington and have banking connections there.

Mr. Hooff noted that the proposed letter to the Comptroller of the Currency would recommend that the application be denied on the grounds that there was not sufficient need for another bank at this time. He stated that, from the legal standpoint, a "lack of need" for a bank did not constitute a satisfactory basis for denial of an application when all other factors were favorable.

Governor Shepardson said that, with great expansion expected in the territory, he did not see why the organizers who saw an

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opportunity in that growth should be denied a chance to take advantage of the situation under the circumstances that appeared to exist.

Governor Balderston stated his belief that an important point was that if the proposed bank were established, a wider choice of banking facilities would be available.

It was understood that, in accordance with customary practice, the Federal Reserve Bank of Richmond would be notified that the Board was considering recommending approval of the application, so that the Reserve Bank might have an opportunity to submit such further comments as it might desire in support of its unfavorable recommendation.

Proposed merger in Reading and Mount Penn, Pennsylvania. The Federal Deposit Insurance Corporation had requested a report by the Board on the competitive factors involved in the proposed merger of Mt. Penn Trust Company, Mount Penn, Pennsylvania, into and with Berks County Trust Company, Reading, Pennsylvania. A suggested report had been distributed to the members of the Board with a memorandum from the Division of Examinations dated July 1, 1960.

Mr. Nelson stated that Berks County Trust Company, the largest bank in Reading, now has about 35 per cent of the deposits of all banks in the county and 22 per cent of the offices. If the merger took place, it would have 39 per cent of the deposits and 24 per cent of the offices. In relation to banks in Reading only, its deposit holdings would be

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increased approximately from 46 per cent to 51 per cent. There would be a definite lessening of competition because the merger would remove one bank entirely, but there would be competition remaining in the area. The Division of Examinations did not feel that the merger would result in a material trend toward monopoly.

Governor Robertson stated that the anticipated results of the merger in the city of Reading were more significant than those in the county as a whole. He pointed out that the Berks County Trust Company was already correspondent for all of the 13 banks in the county and that with the merger it would hold 51 per cent of the deposits in the city. He then suggested certain changes in the wording of the conclusion of the proposed report.

Mr. Hackley stated that the bank merger law apparently contemplated that reports on competitive factors would take into account not only banks but also competition with savings and loan associations. He noted that there were five relatively large associations in the area.

Mr. Nelson indicated that while savings and loan competition was not brought out in the conclusion, it was mentioned in the body of the report.

After a discussion of changes in the wording of the conclusion, the report was approved for transmission to the Federal Deposit Insurance Corporation. The conclusion in the report as approved read as follows:

The proposed merger would obviously diminish competition because it would result in the elimination of one competing financial institution. It would increase the resources of the

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largest bank in the area and provide it with another office to enhance its already strong competitive position.

Governor Mills cautioned against placing too much reliance on percentages of deposits and offices in considering reports on competitive factors involved in mergers. He believed that if all the cases the Board had considered were reviewed, a comparison of percentages might reveal a number of inconsistencies in decisions.

Mr. Hackley commented that in the past the use of percentages in connection with measuring banking concentration had been emphasized as being only a screening device or an indication, and that percentages should not be given conclusive weight.

Governor Robertson expressed the view that percentages were needed to paint the picture, but of course they should never be used as the only basis for a conclusion.

Governor Mills inquired about the prospective volume of merger cases coming before the Board. He indicated that some of them would presumably require attendance by as many Board members as possible, which might be difficult in the coming weeks. He noted that the American Banker had recently reported figures on cases that had been decided by the three supervisory agencies, among which the Board was notable for its absence.

Mr. Nelson reviewed the status and volume of pending cases, and Mr. Hackley observed that when the merger law was passed the Office of



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the Comptroller of the Currency already had a number of applications pending, which the Board did not.

Visit by Mr. Stoddard and Mr. Alley. Chairman Martin stated that Mr. Howard J. Stoddard, President of Michigan National Bank, and Mr. James B. Alley, attorney for the bank, had visited his office July 12, 1960, to discuss the rates of interest payable on time and savings deposits under the Board's Regulation Q. They had emphasized the problem of competition from savings and loan associations and had brought a number of advertisements by such associations, some of which were clearly of an undesirable nature. Mr. Stoddard had indicated that during the months since he had first approached the Board about an increase in the maximum interest rate, share accounts in savings and loan associations had risen while time deposits in banks had decreased. He also spoke of contentions by banks that savings and loan associations were writing mortgages up to par and using the proceeds to pay dividends. Chairman Martin was of the view that if the charges were correct, the situation was a bad one. He went on to say that he thought Mr. Stoddard was correct in saying that people were more rate conscious now than they had been a few years ago, and he expressed his own belief that the public had a right to some benefit from higher interest rates. Some of the points Mr. Stoddard had made were valid, and some concerned competitive conditions that the Board had no way of relieving. Chairman Martin said that he had assured his visitors that the Board was continuing its

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study of the interest rate problem, and he was reporting their visit for the information of the Board.

Absorption of exchange charges. The Board ruled in 1943 that absorption of exchange charges on checks drawn on out-of-town banks constituted payment of interest on deposits in violation of Regulation Q. The Federal Deposit Insurance Corporation took the opposite view, with the result that there was no restriction in its regulations on absorption of exchange charges by nonmember insured banks. Many of those banks, therefore, continued to be nonpar banks.

In 1944 the Board ruled that if the actual cost of charging back exchange was greater than the amount of the exchange itself, absorption would not be considered a payment of interest and thus would not violate Regulation Q. In 1945 the Board ruled that absorption of exchange in any amount up to \$2 a month for each customer would be considered trivial and would be disregarded. At the same time, however, the Board emphasized that, if any bank engaged in the practice of absorbing exchange charges in larger amounts, it would be presumed that the law had been violated. Apparently, this ruling was not understood by all banks to qualify the 1944 ruling.

Governor Robertson referred to discussion by the Board a few months ago of the practices of banks in Little Rock and elsewhere in routing checks in such a way as to have exchange charges absorbed. This was done by sending checks to (for example) Republic National Bank

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of Dallas, Texas, which in turn sent them on to a nonmember bank in Alexandria, Louisiana, which absorbs the exchange charges in consideration for large deposits of the Republic National.

Governor Robertson stated that a serious competitive problem was developing which he thought the Board should deal with promptly in order to avoid a rapid increase in the practice of directly or indirectly absorbing exchange charges in violation of Board rulings. The problem had been accentuated and rendered acute within the last week or two, especially in the Eighth District, but it also involved banks in the Sixth, Eleventh, and Tenth Districts. Governor Robertson felt that the Board was soon going to face a situation in which it would either have to make a vigorous effort to curb the practice or admit that its rule was unenforceable and take steps to reverse previous positions in order to enable member banks to absorb exchange charges the same as nonmember insured banks - otherwise the member banks which conscientiously endeavor to comply with the Board's regulations would be put in a competitively disadvantageous position vis-a-vis those member banks which disregard the Board's ruling.

Mr. Hackley stated that when the Republic National Bank of Dallas had started the practice some months ago, the matter had been taken up with the Comptroller of the Currency, who found that the bank was not violating the regulation because it claimed that the expense of charging back the exchange was greater than the amount absorbed.

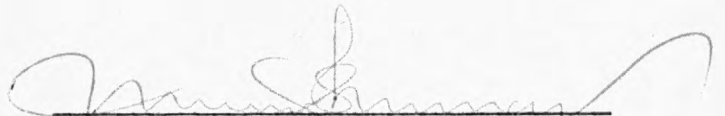
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Governor Robertson reiterated his view that the Board would soon be faced with the necessity of deciding between reversing its position, in fairness to member banks, or finding ways to enforce it. He thought it would be unfortunate to have to reverse the ruling, because much progress had been made in the last ten years in reducing the number of nonpar banks. He described arrangements he proposed to make looking toward a meeting to be held at one of the Federal Reserve Banks in which the Presidents of the Federal Reserve Banks of the four districts he mentioned and the Chief National Bank Examiners in those districts would participate. The purpose of the meeting would be to explore ways in which the Board's ruling could be enforced.

Chairman Martin remarked that the program suggested by Governor Robertson appeared to be a good one, and, after brief discussion, the Board unanimously approved the holding of a meeting such as Governor Robertson had outlined.

The meeting then adjourned.

  
Secretary



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

Item No. 1  
7/13/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 13, 1960



Board of Directors,  
Valley Bank and Trust Company,  
Springfield, Massachusetts.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Boston, the Board of Governors of the Federal Reserve System extends until September 1, 1960, the time within which Valley Bank and Trust Company may establish a branch at 82 North Elm Street, Westfield, Massachusetts, under the authorization contained in the Board's letter of July 31, 1959.

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. 2  
7/13/60



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 13, 1960

Board of Directors,  
The Chase Manhattan Bank,  
New York, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the continued operation by The Chase Manhattan Bank of its branches at 37 Wall Street and 43 Exchange Place, New York, New York, until December 31, 1960.

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. 3  
7/13/60

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ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 13, 1960

Board of Directors,  
Nassau Trust Company,  
Glen Cove, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 97 Forest Avenue, Glen Cove, Nassau County, New York, by the Nassau Trust Company, Glen Cove, New York, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 4  
7/13/60

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ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 13, 1960

Board of Directors,  
Bankers Trust Company,  
New York, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves the establishment by Bankers Trust Company, New York, New York, of a branch at 280-290 Park Avenue, Borough of Manhattan, City of New York, New York. This approval is given provided the branch is established by October 1, 1962.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



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

Item No. 5  
7/13/60



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 13, 1960

Board of Directors,  
First Bank and Trust Company  
of South Bend,  
South Bend, Indiana.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of a branch in the vicinity of the intersection of Cleveland Road and Dixie Highway North, Roseland, Indiana, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Item No. 6

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

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 13, 1960



Board of Directors,  
Commercial State Savings Bank,  
Greenville, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of the branch at 112 W. Second Street, Trufant, Michigan, by Commercial State Savings Bank, provided the branch is established within six months from the date of this letter.

It is understood that the capital structure of the bank will be increased \$60,000 through the sale of additional common stock.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 7  
7/13/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 13, 1960



Board of Directors,  
County Bank of Santa Cruz,  
Santa Cruz, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors of the Federal Reserve System approves the establishment of a branch in the vicinity of the intersection of Sea Cliff Drive and Cabrillo Highway, Aptos, California, by County Bank of Santa Cruz, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 8  
7/13/60



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 13, 1960

The Honorable Jesse P. Wolcott,  
Chairman,  
Federal Deposit Insurance Corporation,  
Washington 25, D. C.

Dear Mr. Wolcott:

Reference is made to your letter of June 28, 1960,  
concerning the application of Home Bank, Compton, California,  
for continuance of deposit insurance after withdrawal from  
the Federal Reserve System.

No corrective programs which the Board believes  
should be incorporated as conditions to the continuance of  
deposit insurance have been urged upon or agreed to by the  
bank.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.



Item No. 9  
7/13/60

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

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 13, 1960

REGISTERED MAIL

Mr. Jesse W. Tapp, Chairman of the  
Board of Directors,  
Bank of America,  
41 Broad Street,  
New York 15, New York.

Dear Mr. Tapp:

There are enclosed two copies of the report of examination of the Guatemala Branch and La Torre Agency, Guatemala City, Guatemala, of Bank of America made as of April 23, 1960, by examiners for the Board of Governors of the Federal Reserve System. The second copy of the report is for the information and files of the officer in charge of the branch.

After the report has been presented to your directors for their consideration, please advise the Board of Governors as to the actions taken or contemplated with respect to the assets classified on page 8 of the report. Any comment you may care to make with regard to the operations of the branch and agency as disclosed by the report will be appreciated.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Enclosures