

Minutes of the Board of Governors of the Federal Reserve System

on Wednesday, July 27, 1960. The Board met in the Board Room at 9:30 a.m.

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

Mr. Sherman, Secretary
 Mr. Kenyon, Assistant Secretary
 Mr. Thomas, Adviser to the Board
 Mr. Farrell, Director, Division of Bank Operations
 Mr. Solomon, Director, Division of Examinations
 Mr. Hexter, Assistant General Counsel
 Mr. Koch, Adviser, Division of Research and
 Statistics
 Mr. Dembitz, Associate Adviser, Division of
 Research and Statistics
 Mr. Nelson, Assistant Director, Division of
 Examinations
 Mr. Landry, Assistant to the Secretary
 Mr. Hooff, Assistant Counsel
 Mr. Collier, Chief, Current Series Section,
 Division of Bank Operations

Discount rates. The establishment without change by the Federal Reserve Banks of Boston and Atlanta on July 25, 1960, 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.

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 Detroit Bank and Trust Company, Detroit, Michigan, approving the establishment of a branch in Birmingham.	1

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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 at Lincoln Way East and Twyckenham Drive.	2
Letter to the Valley Bank and Trust Company, Springfield, Massachusetts, approving the establishment of a seasonal branch on the grounds of the Eastern States Exposition, West Springfield.	3
Letter to The Andover Bank, Andover, Ohio, approving an investment in bank premises.	4

Report on competitive factors--Evansville, Indiana. There had been distributed under date of July 15, 1960, a memorandum from the Division of Examinations submitting a proposed report in reply to a request from the Comptroller of the Currency for a report on the competitive factors involved in the proposed consolidation of Indiana Trust and Savings Bank, Evansville, Indiana, with Old National Bank in Evansville, Evansville, Indiana, under the charter of the latter. The report concluded as follows:

The proposed transaction would eliminate, as an independent unit, one bank which has a demonstrated capacity to compete for business in the area in which it operates, generally more restricted than that of the larger banks in view of branch activity, and subject to legal restrictions imposed as a result of size and corporate capacity.

Following consideration of the matter, the report was approved unanimously.

Report on competitive factors--Washington, Kansas. A memorandum dated July 22, 1960, from the Division of Examinations had been distributed

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submitting a proposed report in reply to a request from the Comptroller of the Currency for a report on the competitive factors involved in the proposed purchase of assets and assumption of liabilities of The Washington National Bank, Washington, Kansas, by The First National Bank of Washington, Washington, Kansas. The report concluded as follows:

The two banks involved in this proposal have been major sources of competition for each other as they were located across the street from each other. This competition has become less keen during the past years as the aging managing officers of the selling bank curtailed their lending activities, and the recent sale of stock resulting in common ownership has eliminated true competition between these banks. The competitive factors in this case, however, are of somewhat less importance than usual as an emergency exists requiring expeditious action. The managing officers of the selling bank have retired, that bank is, consequently, without leadership, and quick action is warranted to prevent possible rapid deterioration in the selling bank's condition. The proposed action should have little or no effect on competition in Washington County.

Following consideration of the matter, the report was approved unanimously.

Classification of reserve cities. There had been distributed copies of a memorandum from Mr. Thomas dated July 25, 1960, pertaining to methods for determining the classification of reserve cities.

In commenting on the memorandum, Mr. Thomas said that in determining a set of standards for classification of cities for reserve purposes it would be necessary to decide (1) whether the Board desired a standard that would bring into the reserve city classification a large number of additional

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cities; (2) whether the Board wanted a standard that would eliminate a large number of existing reserve cities, including some fairly important financial centers; (3) whether the Board wished to classify as reserve cities a number of cities containing one or two banks with numerous branches, which, along with the head office, are all essentially country banks; (4) whether the Board believed that there should be included as reserve cities certain cities in which banks hold large interbank balances and which, on the basis of other standards, would not be classified as reserve cities; and (5) whether the Board believed that all existing Federal Reserve Bank and branch cities should continue to be classified as reserve cities. Mr. Thomas then proceeded to point out the effect of the use of these various criteria upon different cities.

Governor Mills said he continued to regard it as essential that the banks affected by the Board's decisions in this area understand the logic of any formula developed and the manner in which their positions would be affected. He did not believe that a formula based on demand deposits only would be understood or would be appropriate. As he had stated on earlier occasions, it was his view that total deposits should be measured in developing a formula, since they indicate the total resources available for each bank's use, they measure the resources that the System seeks to reach through its credit policies, and they measure the deposit exposure and the degree of liquidity that must be taken into

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account. He pointed out that many of the more important banks in sections of the country beyond the Eastern Seaboard typically have 40, 50, or 60 per cent of their deposits in the form of savings and time accounts, which are payable in effect on demand. Therefore, he believed it would be appropriate to find a formula that would recognize total deposits, with a dividing line that would bring into the reserve city classification certain of the more important communities with substantial banking institutions. With regard to the branch banking systems referred to by Mr. Thomas, he noted that although they are in effect combinations of country banks, the management of such a bank has at its disposal a substantial total amount of resources.

In discussion of the use of total deposits, Mr. Dembitz commented that the tables contained in the staff memoranda on this subject had been constructed mainly on the basis of demand deposits to reduce complications, and that it would be possible to make adjustments to give weight to total deposits within any formula that might be favored.

Question then was raised as to the arguments in favor of the view that all cities in which branches of Federal Reserve Banks are located should be continued as reserve cities, and Mr. Dembitz commented that in his view a reserve city might be defined as a financial center; that is, a place where wholesale banking business is substantial, where deposits are carried for regional and national businesses, and where there are large interbank

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deposits. It was his understanding such criteria had been among the factors considered in selecting Federal Reserve Bank and branch cities, and that the availability of Federal Reserve facilities was of some benefit to the banks in developing a wholesale banking business. Also, it was preferable, in his opinion, to minimize the extent of changes made in classification of cities; it was his thought that there should be shifts only when there was a clear-cut reason.

Governor Robertson observed that the second point related to a question of expediency. So far as the first point was concerned, he expressed some doubt as to whether the services obtained by member banks in cities where Federal Reserve branch banks are located are sufficient, in themselves, to warrant classification of such cities as reserve cities.

After further discussion of these points, Governor Robertson remarked that much of the work to date on the whole subject seemed to involve a preconceived notion of what a reserve city should be. He was concerned that any determination should be based on equity considerations. While he was not sure exactly what formula should be adopted, nevertheless two banks of equal size, and comparable in the type of business conducted, should be in the same classification. This of course, involved finding some appropriate dividing line. In this connection, he saw merit in Governor Mills' suggestion for the use of total deposits; however, if demand deposits were used to establish a dividing line for cities, total

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deposits could be taken into account in exempting individual banks from reserve city requirements. He also believed it would be desirable to try to maintain approximately the existing situation as to total required reserves and their apportionment between classes of banks, that the difficulties involved in adding a number of cities to the reserve city classification should not be a controlling factor in arriving at a formula, and that further study of the entire problem was indicated.

Governor Balderston said he assumed Governor Mills' proposal to use total deposits as a criterion for classification of cities embraced the use of interbank deposits but not deposit turnover. With respect to Governor Robertson's reference to the apparent necessity to classify upward into the reserve city group, he (Governor Balderston) indicated that he would have no objections to some revisions, but that he would hesitate to go too far.

In the discussion that followed, the suggestion was made that the Board might want to consider a formula under which any city would be classified as a reserve city if it contained (1) a single bank with \$200 million of demand deposits, or (2) two banks with aggregate deposits of \$300 million or interbank deposits of \$40 million.

It was understood that the staff would prepare a memorandum showing the effect of adoption of a formula along such lines, along with a somewhat similar formula based on total deposits instead of demand deposits.

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Further reference then was made to alternative methods of dealing with existing Federal Reserve branch cities that would not meet generally established criteria, and also to the factor of deposit turnover. At the conclusion of the discussion it was understood that the Board would continue to study the entire problem of classification of cities for reserve purposes.

Mr. Molony, Assistant to the Board, entered the room during the foregoing discussion, and Mr. Hooff withdrew from the meeting at this point.

Reserve requirements. Under date of July 26, 1960, there had been distributed copies of a memorandum from Messrs. Thomas and Dembitz submitting a report dated July 25, 1960, regarding possible actions to supply reserves in the latter half of 1960.

Mr. Thomas said that because of timing problems it seemed questionable whether any reclassification of banks for reserve purposes could be made effective so as to affect the total supply of reserves to any material extent in the next six months. When completed, reclassification might be expected to release reserves on balance unless the Board should decide to raise the classification of a substantial number of cities, and such classification changes could not be made effective without due notice. However, announcement might be made at the time of other action on reserve requirements as to standards of classification of cities for reserve purposes.

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A Board decision was needed as to any other actions to offset reserves released by the granting of permission to count additional vault cash or by reductions in central reserve city requirements. One possible offset would be to raise reserve requirement percentages, particularly at country banks. Full release of vault cash, with present percentage reserve requirements, would create a differential between country banks and reserve city banks of 5-1/2 percentage points, making city bank requirements 50 per cent above those of country banks. Two other possible offsets were a revision in the check collection schedule to shift to three-day maximum deferment, possibly reducing average outstanding float by \$500 million, or the use of open market sales as a means of absorbing reserves.

Mr. Thomas then described three possible plans for releasing reserves through permission to count more vault cash and through shifts in reserve requirements, noting that all three plans assumed a shift to three-day maximum deferment on January 15, 1961. The first plan would involve a release of vault cash in excess of one per cent at reserve city and central reserve city banks and in excess of 3 per cent at country banks in September, and subsequent reduction of central reserve city bank requirements from 18 to 17 per cent. A second plan would call for release of vault cash in excess of one per cent at reserve city and central reserve city banks and 3 per cent at country banks in September, subsequent reduction of central reserve city requirements from 18 to 17-1/2 per cent, release of

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remaining vault cash on December 1, 1960, and a simultaneous increase in reserve requirements from 16-1/2 to 17 per cent at reserve city banks and from 11 to 13 per cent at country banks. Finally, on January 15, 1961, the change in maximum deferment could be put into effect along with an increase in reserve requirements from 17 to 17-1/2 per cent at reserve city banks and from 13 to 13-1/2 per cent at country banks. A third plan would provide for the same release of vault cash as the two preceding plans, but would reduce central reserve city reserve requirements from 18 to 17 per cent in September, and on December 1, in conjunction with releasing the remaining vault cash, would increase reserve requirements from 11 to 12-1/2 per cent at country banks.

There followed general discussion of the three alternative plans, including the effect thereof on various classes of banks.

During the discussion Chairman Martin noted that the Board members had not had an opportunity to study fully the memorandum of Messrs. Thomas and Dembitz. His personal opinion was that the Board should work toward announcing, if possible, some package that would cover the broad problem. At this point, he leaned toward releasing all vault cash this year, with some increase in reserve requirements. So far as the differential in reserve requirements between central reserve cities and reserve cities was concerned, he was inclined to feel that a small differential could be allowed to continue, if necessary, until the expiration of the statutory time limit for termination of the central reserve city

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classification. With respect to timing of an announcement of whatever plan might be decided upon by the Board, he was in general agreement with the view that an announcement by early September might be appropriate.

Messrs. Thomas, Dembitz, and Collier then withdrew from the meeting. Mr. Robinson, Adviser, Division of Research and Statistics, who had joined the meeting during the foregoing discussion, also withdrew at this point. Mr. Hooff returned to the meeting and Mr. Potter, Legal Assistant, entered the room.

Letter from Budget Bureau regarding retail trade statistics. There had been distributed a memorandum dated July 26, 1960, from Messrs. Sherman and Koch with respect to a letter dated June 20, 1960, from Mr. Bowman, Assistant Director for Statistical Standards, Bureau of the Budget, inquiring whether the Federal Reserve System might be willing to provide some financial support (presumably up to \$125,000 per year) for a program of improved retail trade data that was being considered for inclusion in the 1962 budget proposals. One part of the program called for obtaining monthly GAAFF data for the 60 largest metropolitan areas; the Budget Bureau had proposed that the Federal budget include funds for the first 20 of these areas, and that the Federal Reserve System underwrite the expense of producing figures for the remaining 40 areas. Under date of July 5, 1960, a letter was sent to all Reserve Bank Presidents seeking their comments on the letter from Mr. Bowman, and replies had now been received. About half of the Reserve Banks

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either opposed or were doubtful about underwriting the cost of preparing monthly GAAFF data for the 40 metropolitan areas that would not be covered by appropriated funds. Some of this opposition reflected doubt as to the usefulness of such data, some reflected objection in principle to supporting a program that perhaps should be covered entirely out of appropriated funds, and some of it reflected doubt as to the wisdom of making any commitment in this area until after the results of the study of department store statistics being made by the Committee of Five were known. As to the work of the Committee of Five, sufficient progress had been made to give hope that within the next few months a considerable reduction in the volume of work being done by the Federal Reserve in preparing department store reports might be effected without disruption of relations with the trade. At the same time, there was little prospect of complete elimination of the Federal Reserve's department store reporting service in the near future, short of a unilateral decision to discontinue the work in this field.

In commenting, Mr. Sherman said that members of the staff who had studied Mr. Bowman's proposal in the light of the comments from the Reserve Banks felt that, notwithstanding the opposition expressed by perhaps the majority of the Banks, the Board might be justified in giving favorable consideration to the Bowman request. This would be on the grounds that the program contemplated by Mr. Bowman would provide improved retail trade data over the next few years; and if this program developed successfully, it

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might not only pave the way for improved area data on retail trade but facilitate further curtailment of department store reporting by the Federal Reserve. Mr. Bowman had indicated that it would be helpful if he could have some indication of the Board's attitude fairly soon, although a final decision would not be needed until about mid-September.

Governor Balderston expressed some concern about the reaction of the Presidents to Mr. Bowman's proposal and inquired whether a decision by the Board not to go along with the program would damage any efforts being made to relieve the System, at some point, of the costly research involved in the department store statistics program.

Mr. Sherman replied that work on reduction of the System's department store program could go ahead regardless of whether Mr. Bowman's program was put into effect. On the other hand, failure of the Bowman program might lessen the likelihood of the Federal Reserve being able to move out of the department store program some time hence, on the basis that another agency was obtaining statistics on an adequate basis. So far as the comments of the Reserve Banks were concerned, it seemed possible that if the Board should return to the Presidents and state that there were some overriding considerations suggesting cooperation with Mr. Bowman's program, at least two or three of the Presidents whose comments had been classified as negative would probably go along with it; that is, if they saw it as a step toward relieving System work in this area within the next few years.

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Chairman Martin then suggested the possibility of advising Mr. Bowman that the Board was undecided at this point, and that Mr. Bowman would have to go ahead, if he wished, without definite assurance of System support until such time as the matter could be studied further.

Governor Mills recalled that the original objective of the Government was for the Bureau of the Census to collect all retail trade statistics, including the department store statistics, thereby permitting the Federal Reserve System to withdraw from this field. Following objections from the trade, the Board held its discussion with department store representatives last March. The earlier approach, however, had been that the Bureau of the Census, in taking up this additional work, might ask the System for financial assistance on a trial basis until it could arrange to obtain necessary appropriations. If such appropriations were not forthcoming, the System would have been at liberty to withdraw from the program. Now the circle had come around a full turn, with Mr. Bowman requesting subvention frankly and unequivocally.

Mr. Koch observed that the consensus of the Reserve Banks was very close; two Banks that had been classed as negative had said that "if for tactical reasons" it seemed desirable to go ahead they would support such a move. Staff support for the proposal was based on the following considerations: (1) it would be a good tactical move, improving the prospect of withdrawing from collection of statistics in

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this area and giving the Department of Commerce an opportunity to prove that it could produce, and (2) better retail trade statistics were needed.

Mr. Sherman said his views were about the same as those expressed by Mr. Koch. This would be a step toward the improvement of retail trade data, and in the longer run something of this sort seemed almost essential if the Federal Reserve was to get out of the department store reporting work a few years hence.

Chairman Martin said that he leaned toward the staff view on this question. While he favored eventual withdrawal from the collection of department store statistics, the System would be justified in proceeding cautiously. He then again suggested telling Mr. Bowman that the Board had not yet reached a decision on supporting his program, but that the door was not closed.

Governor Shepardson expressed agreement with the view that the System could not hope to get out of the department store work until there was some other generally accepted program to provide as a substitute. He then inquired how much of the work of the Committee of Five would be accomplished by the date in September when Mr. Bowman would need to have a definite answer from the System, to which Mr. Sherman replied that it was expected a progress report from the Committee would be available in September, and that the report would point toward a substantial reduction in the amount of work involved in the department store program.

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Governor Shepardson then said he felt that the Board should at least indicate to Mr. Bowman at this time that it was favorably disposed towards his proposal. He referred to the need to go ahead on a test basis to determine whether the Commerce Department or the Federal Reserve should provide this service in the future.

Governor Robertson said that if a definite answer had to be given to Mr. Bowman today, he would vote in the negative. The proposal involved the use of Federal Reserve funds in lieu of appropriated funds, and while he would have no hesitancy in approving such a procedure on an interim basis pending the availability of appropriated funds in order to bridge a gap, it was his understanding that the program of Mr. Bowman involved a continuing proposition. There was only a difference of degree between the current proposal and asking the Federal Reserve to provide the funds for the entire program. In view of these circumstances and the doubts expressed by a number of the Presidents as to the usefulness of the data for 40 metropolitan areas that the Federal Reserve would support, he would make his decision on the negative side if a decision was necessary today. However, it appeared that Mr. Bowman was not entirely sure whether the program would be pursued, and it would seem unfortunate, in such circumstances, to make a definite negative decision today. At the same time, he would not want to go so far as to tell Mr. Bowman today that the Board was favorably disposed toward his proposal.

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Messrs. Sherman and Koch indicated that the maximum commitment at this time would be for a period of three years, although the latter added that he thought Mr. Bowman might be thinking in terms of fairly continuous Federal Reserve support.

Following further discussion, it was understood that Mr. Sherman would advise Mr. Bowman orally that the Board had not yet reached a decision, but that the Board would try to give him a definite answer one way or the other by at least mid-September.

Mr. Koch then withdrew from the meeting.

Application of Harris Trust and Savings Bank (Item No. 5). At the meeting on July 22, 1960, preliminary consideration was given to the application of Harris Trust and Savings Bank, Chicago, Illinois, for consent to its proposed merger with the Chicago National Bank, also of Chicago. At that time it was decided to defer action until a larger number of Board members could be present.

Chairman Martin opened the discussion with observations about the difficult nature of this particular case. Basically, he said, the question of bigness or size was involved, along with fundamental questions relating to the purpose and intent of the bank merger legislation. So far as this specific application was concerned, there would be a case for turning it down on the grounds that Harris Trust was now doing a good job of competing with the two largest banks in the area and did not need additional earnings. On the other hand, it was difficult for him to see how the public interest would be injured by the merger.

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Mr. Solomon said that there were persuasive arguments on both sides of the issue. Running counter to approval were several considerations. First, by the terms of the proposed merger a bank with about \$740 million of deposits would be absorbing another bank with over \$200 million of deposits; neither bank required fortification to enable it to compete effectively. Second, Harris Trust was now third in size among the commercial banks in Chicago, even though a poor third, and the merger would increase the concentration of banking within the three largest banks in that city. Third, since Harris Trust was more of a wholesale than a retail bank and Chicago National was more retail in character, absorption of the latter into the former would eliminate the competition of the latter in the retail banking field. Fourth, since Illinois does not permit branch banking, the proposed merger would eliminate one banking office in the downtown Chicago area. On the other hand, Mr. Solomon said, there were several factors arguing in favor of approval of the proposed merger. First, the combined bank would have a larger lending limit. Second, there was some indication that management would be strengthened. Third, the range of services of the merged banks would be broadened, and there was some indication that the continuing institution would be able to compete more effectively with the two major banks. Also, even though the number of banks in downtown Chicago would be reduced by one, a substantial number of banks would be left in the immediate area.

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Mr. Nelson expressed the view that the benefits to be derived from the proposed merger probably slightly outweighed the adverse factors. The larger loan limit and the availability of more resources to the resulting bank were favorable factors, and the public would not appear to be damaged by the elimination of one banking office, since the two banks involved are only a block apart and present customers of the national bank apparently would get as good service from Harris Trust. Also, favorable reports on the competitive factors involved had been received from the Comptroller's Office and the Federal Deposit Insurance Corporation. So far as the views of the Justice Department were concerned, relating to the increase in concentration of banking in the three largest banks in Chicago, Mr. Nelson noted that there were 79 banks in the Chicago area and 13 banks in the downtown area. With respect to potential competition between the parties to the merger, he referred to the opinion of the Chicago Reserve Bank that there had been little competition between the two banks. He doubted whether the element of potential competition deserved too much consideration in this case.

Governor Balderston asked for clarification on two aspects of the problem. First, he asked whether it was not the intent of the Act of May 13, 1960, to require that the Board find positive benefits deriving from a merger to outweigh the diminution of competition that would result. Secondly, he inquired to what extent the parties to this proposed merger

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would be injured should the Board reach an adverse decision, due to the fact that negotiations were well under way when the bank merger legislation was passed.

Mr. Hexter replied that the statute enumerates a number of considerations that the Board must weigh, and concludes with the statement that the Board shall not approve the proposed transaction unless, after considering all of those factors, it finds the proposal to be in the public interest. The legislative history indicates that the Board shall look at all of the enumerated factors, balance the good against the bad, and then find that the public will be better off if the particular transaction is consummated than if it is not.

With reference to Governor Balderston's second question, Mr. Hexter said the fact that expenditures had been undertaken, plans made, or announcements made before the enactment of the bank merger legislation would not make any legal difference. After the legislation was enacted, Harris Trust and its counsel took the position that this merger had taken place already because the shareholders of the banks had voted and approval had been obtained from the State authorities. In the opinion of the Legal Division, however, this was not a sound legal position. In the event of an adverse decision by the Board, it was conceivable that Harris would revert to its earlier position that Board approval was not needed because the merger had taken place before the bank merger legislation was enacted. However, if

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the matter were litigated, it was the view of the Legal Division that the bank would not be successful in its contention.

There ensued further discussion concerning the intent of the bank merger legislation, as indicated by the statute and its legislative history, and comparisons were made between this legislation and the Bank Holding Company Act.

Governor Shepardson then said that his thinking on the Harris Trust case had undergone a change since the matter was discussed previously. At that time his position had been similar to that of Governor Robertson. Following that discussion, however, he had reviewed the file on this case, beginning with that portion of it relating to the fact that merger plans had progressed considerably before the bank merger legislation was enacted last May. On this point, although the situation was unfortunate, he did not disagree with the legal position expressed by Mr. Hexter. However, he had then reflected further on the dominant position of the two largest banks in Chicago and the considerable gap that existed between them and Harris Trust, the third largest bank. On such reflection, it seemed to him there might be substance to the Board's line of reasoning in the California Bank-First Western Bank and Trust Company merger, to the effect that it was desirable to build more competition for the dominant bank or banks in an area. This might be a factor that was in the public interest. Certainly, the case had been made that the types of business of Harris Trust

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and Chicago National were quite distinct. Conceivably, there might be potential competition between them, but at present one is a wholesale bank and the other a retail bank. There had been no substantial move in the direction of competition between the two banks over a long period of time. Accordingly, he had come to the conclusion that, all things considered, the proposed merger might be regarded as in the public interest and therefore approved. In this connection, he wished to make it clear that, although the question of whether the merger was subject to the new bank merger legislation had caused him initially to review the file, this situation was not the reason on which he based his present conclusion. Instead, his conclusion was based on his reasoning that the merger might result in a strengthening of competition among the banks in the Chicago area doing a wholesale banking business.

Governor Robertson raised the question whether it was appropriate to emphasize an increase in competition among the wholesale banks in Chicago as a reason for approving the proposed merger. The purpose of the consolidation was primarily to enable Harris Trust to get into the retail business, and Harris Trust would still be only half as large as either of the two leading banks in Chicago.

Governor Balderston commented that in a recent Reading, Pennsylvania, case the Board approved a merger that strengthened the second bank in the area to a point where it appeared that the bank could give more effective

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competition to the largest bank in the area. Thus, the merger probably enhanced competition in the Reading area. In the California Bank-First Western case, the Board was motivated by the thought of providing more effective competition for the largest bank in the State, or at least preventing the gap from getting any larger. In those two cases, it had been his philosophy that it was desirable to have at least two strong banks in each competitive area. In Chicago, however, there were already two major competing banks, and the question was one of the desirability of building a third institution to the point where it could compete more effectively with those two banks. The applicant bank was among the most profitable of all the banks in the country, a fact which, although perhaps irrelevant, indicated that Harris Trust was not suffering. He believed the philosophy he had followed in the Reading and the California cases was correct, but the question whether two major competing banks in an area like Chicago were enough caused him difficulty.

Chairman Martin said the discussion at this meeting had not changed the general feeling he had after studying the file on this case. Mr. Hexter's point about the legal situation in relation to the status of the merger was no doubt correct, but the unusual situation was a factor that should be borne in mind. He would not be terribly unhappy if this application were turned down, but his concept of the public interest was that it would be served here by approval of the merger. Into his thinking he

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had brought a lot of factors, one of which was management, which he felt would be improved. His concept of the public interest was that it involved a variety of factors, and when he looked at the Chicago area in a broad public interest sense he would be happier if this merger were approved than if it were disapproved. He gathered that that was the thinking of the examining staff.

Mr. Hexter commented that if the merger were consummated Harris would be about a \$1 billion bank, while the two largest banks were about \$2.5 billion banks. Chicago also has a number of banks in the \$100-\$400 million category. Harris could not compete on a parity with the two largest banks even after the merger. If it later applied for permission to absorb other smaller banks, the question was whether the Board would be prepared to go along. In his opinion it might be difficult to draw a dividing line.

Chairman Martin replied that he did not think any line could be drawn. That was where the Board had a real problem of appraising the public interest and what was involved in any merger plan.

Governor Robertson commented that the merger would eliminate one alternative source of credit, while at the same time the record showed that the management of each bank was good. One of the banks, Harris Trust, was one of the most profitable banks in the United States. Therefore, this case would seem to fall in the category of those mergers taking place for

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the purpose of building size. Also, it would give Harris Trust a means of getting into the retail business at low cost. If this merger should be approved, Governor Robertson said, he could hardly envisage any case that the Board would turn down except cases involving the largest bank in the area concerned. In his view, the Board would have nothing to stand on if Harris Trust later sought to merge with other banks.

Chairman Martin said he appreciated these points. However, there was some difference between his philosophy and that of Governor Robertson. As the Chairman saw it, this type of bank supervisory operation required the Board to make a judgment on each case. If the facts seemed to warrant, he would have no hesitation in turning down Harris Trust if it came in with an application to acquire another \$200 million bank. He did not believe it was possible to use over-all standards, and in another case the Board could say that the trend had gone far enough. He would have to make the same sort of judgments as in this case, according to his concept of the broad public interest.

Governor Robertson said he was thinking of the matter in terms of the testimony given on behalf of the recent bank merger legislation. In that testimony the view was expressed that there was concern about the merger problem in the banking field and about the fact that the Federal bank supervisory agencies were without power to deal with a number of situations. It was testified that the bank supervisory agencies were in

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a better position to determine such matters than the Department of Justice because of their specialized knowledge. However, since the legislation was enacted, there had been more mergers than ever before in a like period of time. In this case, management was good in both banks, and the fact of a larger loan limit would not appear to be a public interest factor in the absence of a showing that the larger limit was essential to the public interest.

Governor Mills said he felt there was some question, from the legislative history of the bank merger legislation, whether a positive finding that the transaction would be beneficial to the public interest had to be developed. In this connection, he cited as valuable guidance a memorandum from Mr. Hackley to the Board dated May 16, 1960, which discussed the factors to be considered in deciding cases arising under the legislation. His own concept of the public interest was that any action on the part of the two contracting parties should be approved unless there was clear evidence that consummation of the transaction would be contrary to the public interest.

There ensued further references to the statute and its legislative history, following which the Chairman raised the question whether the members of the Board were prepared to act on the proposed Harris Trust merger.

After discussion of the factors involved in possible postponement of a decision, approval was given to a letter to Harris Trust and Savings Bank (attached Item No. 5) granting consent to its merger with the Chicago National Bank. On this action Governors Balderston and Robertson voted "no".

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Application of Bank of Virginia (Item No. 6). There had been circulated among the members of the Board a file relating to the application of The Bank of Virginia, Richmond, Virginia, for permission to purchase the assets and assume the liabilities of the Chesterfield County Bank, Chester, Virginia, and to establish three branches at the locations of present offices of the latter bank. The recommendations of the Federal Reserve Bank of Richmond and the Division of Examinations were favorable, and the memorandum from the Division set forth the following basis for its recommendation:

The proposed transaction would afford the communities involved with the expanded and improved banking facilities common to larger, well operated banks and with competent progressive management. On this basis, approval of the transaction is recommended.

Reports from the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Department of Justice on the competitive factors involved were included with the file.

After discussion, unanimous approval was given to the letter to The Bank of Virginia of which a copy is attached as Item No. 6.

The members of the staff then withdrew and the Board went into executive session.

Margin requirements (Items 7, 8, and 9). The Secretary was later informed by the Chairman that during the executive session the Board gave consideration to the margin requirements prescribed in the Supplements to

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Regulation T, Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks; and that approval was given, with Governors Mills and Robertson voting "no", to a reduction in the margin requirements from 90 per cent to 70 per cent, effective July 28, 1960.

Secretary's Note: Pursuant to this action, a press release in the usual form was issued at 4:00 p.m. EDT, the Federal Reserve Banks and branches were informed of the Board's action by telegram, and a notice was published in the Federal Register. Copies of the press release and the amended Supplements to Regulations T and U are attached as Items 7, 8, and 9.

Governor Robertson subsequently transmitted to the Secretary the following statement with regard to his position:

Governor Robertson dissented from this action because in his view it was untimely in that it indicated undue emphasis upon stock market prices rather than credit in that market. Furthermore, he felt that the action, when taken, should be accompanied by repeal of the regulatory provisions that give preferential treatment to existing users of margin accounts as against those who now seek new credit with which to invest or speculate in the stock market. Only a small amount of margin purchases represents transactions requiring the payment of present initial margins. Most all outstanding stock market credit is in the margin accounts of customers who are free to engage in same-day-purchase-and-sale transactions on much lower margins. The resulting favoritism is alone sufficient to warrant correction. But also important is the fact that, because of the velocity of the stock transactions of existing borrowers, a given dollar amount of stock market credit in their hands results in a far larger credit impact than does an equal dollar amount of credit in the very narrow area of transactions subject to the present higher margin requirements.

The meeting then adjourned.

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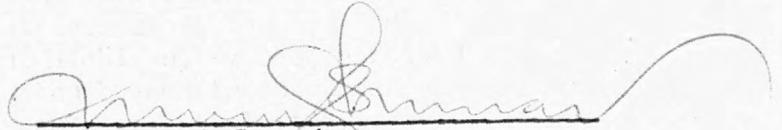
Secretary's Notes: On July 26, 1960, Governor Shepardson approved on behalf of the Board acceptance of the resignations of Elizabeth P. Vanni, Minutes Clerk, Office of the Secretary, effective July 23, 1960, and Donald W. Farrell, Assistant Counsel, Legal Division, effective July 31, 1960.

Governor Shepardson today approved on behalf of the Board the following items:

Memorandum dated July 26, 1960, from Mr. Koch, Adviser, Division of Research and Statistics, recommending that M. Elva Morse, Statistical Assistant in that Division, be granted an additional advance of sick leave for 30 days, effective August 5, 1960.

Letter to the Federal Reserve Bank of Richmond (attached Item No. 10) regarding arrangements for the assignment of Jesse H. Ellsworth of that Bank to the Board's Division of Examinations for a period of approximately three months.

Letter to the Federal Reserve Bank of Chicago (attached Item No. 11) approving the appointment of Holmes Foster as examiner.



Secretary

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

Item No. 1
7/27/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 27, 1960



Board of Directors,
The Detroit Bank and
Trust Company,
Detroit, 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 a branch at the northeast corner of Woodward and Oakland Avenues, Birmingham, Michigan, by The Detroit Bank and Trust Company, provided the branch is established within nine months from the date of this letter.

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
7/27/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 27, 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 at the corner of Lincoln Way East and Twyckenham Drive, South Bend, Indiana, by First Bank and Trust Company of South Bend, provided the branch is established within one year from the date of this letter.

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
7/27/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 27, 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 approves the establishment of a branch on the grounds of the Eastern States Exposition, West Springfield, Massachusetts, to be operated between September 17 and September 25, 1960, inclusive.

It is understood that the bank wishes to operate an office at this location each succeeding year in which the Eastern States Exposition is open to the public. Consequently, the Board of Governors also approves the establishment and operation of a new branch at this location during the period of each succeeding year that the Eastern States Exposition is open to the public. This approval for each succeeding year is subject to cancellation by the Board of Governors upon reasonable notice to the bank prior to the beginning of such period of any year.

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. 4
7/27/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 27, 1960

Board of Directors,
The Andover Bank,
Andover, Ohio.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment of \$109,000 in bank premises by The Andover Bank, Andover, Ohio, for the purpose of constructing a new bank building. It is understood that the proceeds from the sale of the old bank building will be applied to reduce the investment in bank premises.

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. 5
7/27/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 27, 1960

Board of Directors,
Harris Trust and Savings Bank,
Chicago, Illinois.

Gentlemen:

Pursuant to your application submitted through the Federal Reserve Bank of Chicago and subject to the circumstances described therein, the Board of Governors of the Federal Reserve System, after consideration of all factors set forth in section 18(c) of the Federal Deposit Insurance Act, as amended by the Act of May 13, 1960, and finding the transaction to be in the public interest, hereby consents to the merger of Chicago National Bank, Chicago, Illinois, into Harris Trust and Savings Bank, Chicago, Illinois, provided (1) the transaction is completed within six months from the date of this letter, and (2) shares of stock acquired from dissenting stockholders of the constituent corporations are disposed of within six months from date of acquisition.

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
7/27/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 27, 1960

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

Gentlemen:

The Board of Governors of the Federal Reserve System, after consideration of all factors set forth in section 18(c) of the Federal Deposit Insurance Act, as amended by the Act of May 13, 1960, and finding the transaction to be in the public interest, hereby consents to the purchase of assets and assumption of liabilities of Chesterfield County Bank, Chester, Virginia, by The Bank of Virginia, Richmond, Virginia. The Board of Governors also approves the establishment of branches by The Bank of Virginia at the following locations of the present offices of Chesterfield County Bank:

Main Office, Chester, Virginia
Intersection of Belt Boulevard and Route 360,
Chesterfield County, Virginia
Intersection of Forest Hill Avenue and Old Westham Road,
Chesterfield County, Virginia

The approval is given provided (1) the transactions are effected substantially in accordance with the agreement submitted with the application and consummated within six months from the date of this letter, and (2) the securities and fixed assets acquired are not placed upon the books of The Bank of Virginia at amounts in excess of market value and depreciated value for Federal income tax purposes, respectively.

Permission by the Board of Governors to operate the facility at the U. S. Army Richmond Quartermaster Depot is not required. The operation of such facility comes under the jurisdiction of the Treasury Department.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Item No. 7
7/27/60

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release at 4:00 p.m., E.D.T.
Wednesday, July 27, 1960.

The Board of Governors of the Federal Reserve System today amended Regulations T and U, relating respectively to margin requirements of brokers and banks, by reducing margin requirements from 90 per cent to 70 per cent, effective July 28, 1960. The reduced requirements apply to both purchases and short sales. No other change was made in the regulations.

Item No. 8
7/27/60

SUPPLEMENT TO REGULATION T

Section 220.8--SUPPLEMENT

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective July 23, 1960

(a) Maximum loan value for general accounts. - The maximum loan value of a registered security (other than an exempted security) in a general account, subject to § 220.3, shall be 30 per cent of its current market value.

(b) Margin required for short sales in general accounts. - The amount to be included in the adjusted debit balance of a general account, pursuant to § 220.3(d)(3), as margin required for short sales of securities (other than exempted securities) shall be 70 per cent of the current market value of each such security.

(c) Retention requirement for general accounts. - In the case of a general account which would have an excess of the adjusted debit balance of the account over the maximum loan value of the securities in the account following a withdrawal of cash or securities from the account, the "retention requirement" of a registered security (other than an exempted security), pursuant to § 220.3(b)(2), shall be 50 per cent of its current market value.

Item No. 9
7/27/60

SUPPLEMENT TO REGULATION U

Section 221.4--SUPPLEMENT

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective July 28, 1960

(a) Maximum loan value of stocks. - For the purpose of § 221.1, the maximum loan value of any stock, whether or not registered on a national securities exchange, shall be 30 per cent of its current market value, as determined by any reasonable method.

(b) Retention requirement. - For the purpose of § 221.1, in the case of a loan which would exceed the maximum loan value of the collateral following a withdrawal of collateral, the "retention requirement" of a stock, whether or not registered on a national securities exchange, shall be 50 per cent of its current market value, as determined by any reasonable method.

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

Item No. 10
7/27/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 27, 1960



Mr. Hugh Leach, President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Leach:

In accordance with the tentative arrangements made with Vice President Armistead by the Board's Division of Examinations, it is understood that your Bank will make available, for a period of approximately three months or from August 1 to 19, and August 29 to October 28, the services of Mr. Jesse H. Ellsworth, a Senior Examiner for the Federal Reserve Bank of Richmond. While in Washington, Mr. Ellsworth will be assigned to the foreign banking section of the Board's Division of Examinations, but it is also hoped he will have an opportunity to become generally familiar with the work of the Division as a whole and to visit other divisions of the Board. While on assignment in Washington, Mr. Ellsworth will be designated as a Federal Reserve Examiner.

It is understood that the salary of Mr. Ellsworth will continue to be paid by the Federal Reserve Bank of Richmond for the period during which he will be assigned here, but that your Bank will be reimbursed by the Board for travel and other official expenses incurred by him, including living accommodations in Washington. Since the arrangement contemplates that Mr. Ellsworth will return to Richmond on week ends, the agreement for reimbursement will cover travel between Washington and Richmond.

The Board of Governors appreciates the cooperation of your Bank in making the services of Mr. Ellsworth available during this period.

Very truly yours,

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 11
7/27/60

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 27, 1960

Mr. W. R. Diercks, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Diercks:

In accordance with the request contained in your letter of July 15, 1960, the Board approves the appointment of Holmes Foster as an examiner for the Federal Reserve Bank of Chicago. Please advise as to the effective date of the appointment.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.