

Minutes for September 20, 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

W

Gov. Szymczak

AS

Gov. Mills

[Signature]

Gov. Robertson

R

Gov. Balderston

CB

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on  
 Tuesday, September 20, 1960. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman 1/  
 Mr. Balderston, Vice Chairman  
 Mr. Szymczak  
 Mr. Mills  
 Mr. Robertson  
 Mr. Shepardson  
 Mr. King

Mr. Sherman, Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Hackley, General Counsel  
 Mr. Solomon, Director, Division of Examinations  
 Mr. Hooff, Assistant General Counsel  
 Mr. Nelson, Assistant Director, Division of  
 Examinations  
 Mr. Benner, Assistant Director, Division of  
 Examinations  
 Mr. Sprecher, Assistant Director, Division of  
 Personnel Administration  
 Mrs. Semia, Technical Assistant, Office of the  
 Secretary

Continental Bank and Trust Company. Mr. Hackley reported that  
 a suit against the Board had been filed yesterday by The Continental  
 Bank and Trust Company, Salt Lake City, Utah, in the United States  
 District Court for the District of Columbia. Although there had not  
 yet been an opportunity to examine the complaint, he understood that the  
 bank was seeking a declaratory judgment on the grounds the Board lacked  
 authority to issue its order of July 18, 1960, requiring an increase in  
 capital and that its determination in the matter was not reasonable.

(Later in the meeting Mr. O'Connell, Assistant General Counsel,  
 entered the room and advised that a copy of the complaint had been served  
 on each member of the Board. He substantiated Mr. Hackley's comments

1/ Entered meeting at point indicated in minutes.

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regarding the nature of the suit, and there was a brief discussion concerning the manner in which defense of the suit might be handled.)

Old Kent Bank and Trust Company. Governor Mills referred to the Board's approval at the meeting on September 16, 1960, at which he had not been present, of a letter to the Department of Justice concerning the matter of Old Kent Bank and Trust Company, Grand Rapids, Michigan. The Department had requested the Board's views as to the desirability of filing either a motion for leave to file a petition for rehearing en banc by the United States Court of Appeals or a petition for a writ of certiorari to the United States Supreme Court. In reply the Board stated that in its judgment the probability of either petition being granted had been considerably lessened by the passage of the new merger legislation, although, if the Department of Justice should determine to proceed further along either line of appeal, the Board would defer to the Department's decision and its legal staff would cooperate fully in rendering whatever assistance was required.

Governor Mills said that he was not clear as to the Board's reasoning in taking what appeared to be a neutral position after it had declared a principle in its decision on the Old Kent case and also in a similar case involving Wachovia Bank and Trust Company, Winston-Salem, North Carolina. Although it was true that the new legislation now placed responsibility in merger cases indisputably with the Board, he felt that, having declared itself in principle, the Board should have sought to

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have further appellate action taken. By failing to do so, it seemed to him the Board was saying, in effect, that the original case was ill-founded and that the Board lacked confidence in the principle it had established.

Mr. Hackley then reviewed some of the considerations that had entered into the drafting of the letter to the Department of Justice, including the fact that the Supreme Court is reluctant to grant writs of certiorari except where a precedent would be set for future cases, a factor no longer present in the Old Kent case in view of the passage of the merger legislation.

Governor Robertson remarked that, as he had stated previously, he was surprised when the Justice Department petitioned for rehearing by the original three-judge panel rather than by the court en banc. It is unusual, he said, for a three-judge panel to grant a rehearing on a case it has previously considered. In the present circumstances it seemed to him that the possibility of obtaining a writ of certiorari from the Supreme Court was extremely slight, because, as Mr. Hackley had pointed out, the Court usually grants such writs only when the case may set a pattern for similar cases. Therefore, he had gone along with the letter to the Department of Justice because he considered it futile to try to carry the matter further and not because he thought that the case had been decided correctly on its merits.

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Governor Balderston stated that he had voted for approval of the letter to the Department of Justice because he thought the principle involved in the Old Kent case had been resolved by the merger legislation, and therefore a continuation of the Old Kent proceedings might seem vindictive and, if not futile, at least wasteful.

Governor Shepardson asked if it had not been the decision of the Department of Justice, rather than the Board, to take the petition for rehearing back to the three-judge panel. Mr. Hackley responded that that was correct, and that the question whether to seek a rehearing en banc or a writ of certiorari from the Supreme Court also was a matter for decision by the Department. It was his understanding that those in authority at the Department were not inclined to look favorably on pursuing the matter further.

Discount rates. The establishment without change by the Federal Reserve Banks of Boston and Atlanta on September 19, 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:

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	<u>Item No.</u>
Letter to The Chase Manhattan Bank, New York City, approving an extension of time to establish a branch at 666-676 Forest Avenue, West New Brighton, Staten Island.	1
Letter to Girard Trust Corn Exchange Bank, Philadelphia, Pennsylvania, approving an extension of time to establish a branch at Comly Road and Roosevelt Boulevard.	2
Letter to The Reading Trust Company, Reading, Pennsylvania, approving the establishment of a branch at 1330 Schuylkill Avenue.	3
Letter to First-Peoples State Bank, Traverse City, Michigan, approving the establishment of a branch at 231 East State Street.	4
Letter to Wells Fargo Bank American Trust Company, San Francisco, California, approving the establishment of a branch in Oakland.	5

Report on competitive factors (Niles-Dowagiac, Michigan). A

memorandum dated September 9, 1960, from the Division of Examinations, which had been distributed, submitted a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed purchase of assets and assumption of liabilities of The Dowagiac National Bank, Dowagiac, Michigan, by the First National Bank of Niles, Niles, Michigan. The report concluded with the statement that the proposed transaction would lessen competition and tend to increase further the dominance of the applicant in the area.

In discussion of the matter, Governor Mills raised the question whether a barrier such as a State line (in this case the Michigan-Indiana

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line) should be used to define the area in which the two banks involved competed, as was done in the report. After reviewing the sources of competition to the two banks, especially from banks in Indiana cities, Governor Mills expressed the opinion that the proposed merger would provide better banking facilities to a community deserving them, and the banking structure in the area might be strengthened.

Mr. Solomon agreed with Governor Mills' point about the State line not being significant in determining the area of competition, and it was understood that the report would be amended in this respect. He expressed the view, however, that the principal influences of the merger on competition would be felt in the territory north of Niles.

There followed a discussion of the geographical relationships involved and the banking facilities available. Various suggestions were then made concerning the wording of the conclusion in the report, especially with regard to the reference to the "dominance of the applicant" and to the desirability of defining the area affected as being north of Niles. The report then was approved for transmittal in a form that would take into account, in the conclusion, the suggestions agreed upon at this meeting.

The report subsequently transmitted to the Comptroller of the Currency contained the following conclusion: The proposed transaction would lessen competition and tend to increase the strong position of the applicant within an area extending 15 miles north of Niles.

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Application to organize a national bank in Corpus Christi, Texas (Item No. 6). A file had been circulated regarding an application to organize a national bank in Corpus Christi, Texas. The Federal Reserve Bank of Dallas had suggested an unfavorable recommendation to the Comptroller of the Currency on the application, while the Division of Examinations concluded that a favorable recommendation would be warranted. Governor Mills had indicated, when the file was in circulation, that he agreed with the recommendation of the Federal Reserve Bank.

Governor Mills stated that the reason for his position was that the proposed bank was to be located in the downtown business section of Corpus Christi, which appeared to be deteriorating to a degree. He could not convince himself that there was any need for an additional commercial bank in that locality or that such a bank could compete effectively with the well-established banks already located there. If the proposal had been to establish a bank in an outlying section of the city that had prospects for growth and ability to support a new bank, he might have felt differently. Also, he was not overly impressed by the stature of the organizers.

Governor Robertson commented that he had not been able to find anything in the file that supported the Federal Reserve Bank's recommendation. Although the proposed location was in the older section of town, the organizers appeared to be successful businessmen, and he could not find justification for the Reserve Bank's reservations about the

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proposed management. Therefore, he thought that the Examinations Division was correct when it suggested that the Board recommend approval, provided the Comptroller of the Currency was satisfied as to the management factor.

Governor Shepardson expressed uncertainty about the application. He noted that Corpus Christi had had a tremendous growth based on the placement there of a large Naval installation, but some of the operations of that installation had been transferred to a Naval base in Florida, with a consequent setback to the Corpus Christi area. Nevertheless, he thought that the long-run growth prospects were good. He also believed in the principle that, as far as was reasonable, competent organizers should be allowed to establish banks and compete. On balance, he was inclined to go along with the favorable recommendation of the Division of Examinations.

Governor King stated that a fact he considered important was that in the past few years two banks had been incorporated in Corpus Christi--one State and one national--and those banks had not experienced rapid growth. As he saw the picture, Corpus Christi had two fairly large banks and quite a few smaller banks. He was not convinced that the establishment of another bank to compete with those new, small banks, which had already had difficulty in growing, would be a good thing. He thought the difficulties these recently-established banks had experienced were a warning sign. Although the organizers of the proposed bank reportedly had pledges of \$4 million in deposits, he noted that there

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was no commitment as to what would happen to those deposits once they were in the bank. For these reasons, he would be inclined to recommend disapproval of the application. In his opinion, a city the size of Corpus Christi was not well served by having a large number of small banks.

Mr. Nelson pointed out that the two banks Governor King had mentioned were outlying banks. In the downtown section, he said, there were two banks of fair size, but an estate owned one of them entirely and part of the other one, so that they were not completely competitive.

Governor King then expressed the thought that in a city the size of Corpus Christi an outlying bank is still close enough to the business section to make its facilities easily available, whereas "outlying" would have a different meaning in a larger city.

Governor Szymczak stated that he agreed with Governors Mills and King, and therefore with the Federal Reserve Bank's recommendation of disapproval.

Governor Balderston stated that upon reviewing the file his reaction had been favorable and that as a matter of principle he liked to see new banks starting. However, he recognized that the question was a close one.

Accordingly, it was decided to recommend unfavorably on the application, Governors Szymczak, Mills, and King voting for such a recommendation, Governors Robertson and Shepardson voting against it, and Governor Balderston abstaining.

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A copy of the letter sent to the Comptroller of the Currency pursuant to this action is attached as Item No. 6.

Salary structures at Federal Reserve Bank of Dallas and branches (Item No. 7). A draft of letter to the Federal Reserve Bank of Dallas had been circulated which would approve revised minimum and maximum salaries for the respective grades of the salary structures of the Bank and its branches, effective October 1, 1960.

The letter, a copy of which is attached as Item No. 7, was approved unanimously.

At this point Mr. O'Connell entered the room and Mr. Sprecher withdrew.

Absorption of exchange charges. Following the issuance of the Board's interpretation of August 4, 1960, regarding absorption of exchange charges as payment of interest on demand deposits, a draft of possible examination procedures was sent by the Division of Examinations to the Vice Presidents of the Federal Reserve Banks in charge of examinations for their comments. A draft of letter had now been distributed which would inform those Vice Presidents that after further study of the subject, including consideration of the views expressed by the Presidents of the Reserve Banks when they met with the Board on September 13, 1960, it had been decided not to issue any specific suggestions or instructions on the subject at this time and to treat the matter like other examination questions.

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It was noted that there had been distributed to the Board copies of letters from the Bank Management Commission of the American Bankers Association, from other groups of bankers, and from individual banks requesting modification of the position taken in the Board's interpretation, and that additional letters had been received and were likewise being distributed. It was pointed out, also, that the American Bankers Association was meeting this week, that the question of absorption of exchange charges was a matter of discussion among the bankers attending, and that some further representation from the Association seemed possible.

There was general agreement that in the circumstances it would be desirable not to write to the Vice Presidents in charge of examinations about the matter at the present time, and that after the meeting of the American Bankers Association was concluded representatives of the Association should be invited to meet with the Board. After discussion of the possibility that the Federal Deposit Insurance Corporation might change its position on the absorption of exchange charges, it was suggested that the Board might invite representatives of the Corporation to attend any meeting with representatives of the American Bankers Association, and agreement with this suggestion was expressed.

Pan American Bank of Miami. In regard to the Pan American Bank of Miami, Florida, Governor Robertson stated that, as previously reported to the Board, two of the Sottile banks were to be sold with net proceeds of \$2,130,000, and Connecticut Mutual Life Insurance Company originally

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intended to apply these proceeds to a reduction of its claim against Sottile, Inc., and payment of arrearages. Governor Robertson had suggested that the insurance company consider using the funds to purchase stock in the Pan American Bank in order to place the bank in sound condition. Representatives of the company stated that consideration would be given to the matter at a meeting of the executive committee on September 19, and asked Governor Robertson to determine the amount of capital needed to restore the capital accounts of the bank to sound condition. An appraisal by the Chief Examiner of the Federal Reserve Bank of Atlanta indicated that the net capital deficiency of the Pan American Bank was about \$2,140,000, and Messrs. Solomon and Benner concurred.

Governor Robertson said that yesterday he had conferred by telephone with Mr. Tenney, Vice President of the insurance company, and Mr. Weir, Assistant Vice President. After considerable discussion they indicated an inclination to employ the net proceeds from the sale of the two banks to increase the capital of Pan American. They suggested, however, that the funds be used to purchase preferred stock instead of common, a proposal from which Governor Robertson had attempted to dissuade them.

Governor Robertson reported that a common stock issue of \$2.5 million was contemplated, with the insurance company taking up something over \$2 million of this amount and at least part of the balance sold through the exercise of rights by present shareholders. Thus it seemed

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probable that the capital deficiency estimated by the Atlanta Reserve Bank's Chief Examiner could be covered.

After discussion of the developments outlined by Governor Robertson, agreement was expressed that the plan seemed a suitable one which deserved Board support, and Governor Robertson was authorized to proceed in his discretion.

Chairman Martin joined the meeting at this point and Governor Balderston described certain matters that had been discussed, including the prospective meeting with representatives of the American Bankers Association regarding the Board's interpretation on absorption of exchange charges. Chairman Martin expressed no objection to the contemplated procedure.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a memorandum dated September 20, 1960, from Messrs. Noyes and Kelleher recommending that the purchase option covering the IBM 650 computer which will expire on October 6, 1960, not be exercised nor renewed.

  
Secretary

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

Item No. 1  
9/20/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 20, 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 extends to May 1, 1961, the time in which to establish a branch at 666-676 Forest Avenue, West New Brighton, Staten Island, New York, by The Chase Manhattan Bank under the authorization contained in the Board's letter of March 28, 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. 2  
9/20/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 20, 1960



Board of Directors,  
Girard Trust Corn Exchange Bank,  
Philadelphia, Pennsylvania.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors has approved an extension of time until March 25, 1961, in which Girard Trust Corn Exchange Bank may establish a branch near the northeast corner of Comly Road and Roosevelt Boulevard, Philadelphia, Pennsylvania. The establishment of this branch was authorized in a letter dated October 5, 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. 3  
9/20/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 20, 1960



Board of Directors,  
The Reading Trust Company,  
Reading, Pennsylvania.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Philadelphia, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 1330 Schuylkill Avenue, Reading, Pennsylvania, by The Reading Trust Company, 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. 4  
9/20/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 20, 1960



Board of Directors,  
First-Peoples State Bank,  
Traverse City, 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 231 East State Street, in Traverse City, by First-Peoples State Bank, provided the branch is established within ninety days.

It is understood that this branch is to be operated for a temporary period while the street providing access to the main office drive-in window is closed due to the construction of a new bridge across the Boardman River.

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  
9/20/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 20, 1960



Board of Directors,  
Wells Fargo Bank American Trust Company,  
San Francisco, 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 22nd and Webster Streets, Oakland, California, by Wells Fargo Bank American Trust Company, San Francisco, California, 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. 6  
9/20/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 20, 1960

Comptroller of the Currency,  
Treasury Department,  
Washington 25, D. C.

Attention Mr. G. W. Garwood,  
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated June 20, 1960, enclosing copies of an application to organize a national bank in Corpus Christi, Texas, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Dallas indicates that the proposed capital structure of the bank would be adequate. The proposed board of directors is composed of a group of substantial businessmen but since only one of the individuals has had any banking experience and there is some question as to the qualifications of the proposed executive officer, the management factor can not be favorably evaluated at this time. Information available does not indicate a pressing need for a downtown bank at the present time and the prospects for future earnings of the institution are somewhat uncertain. This appears to be a borderline case and after considering all of the information, the Board does not feel justified in recommending approval of the application.

The Board's Division of Examinations will be glad to discuss any aspects of this case with representatives of your office if you so desire.

Very truly yours,

*Elizabeth L. Carmichael*

Elizabeth L. Carmichael,  
Assistant Secretary.

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

Item No. 7  
9/20/60

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 20, 1960



CONFIDENTIAL (FR)

Mr. Watrous H. Irons, President,  
Federal Reserve Bank of Dallas,  
Dallas 2, Texas.

Dear Mr. Irons:

In accordance with your letter of September 8, 1960, the Board of Governors approves the following minimum and maximum salaries for the respective grades of the salary structures of the Federal Reserve Bank of Dallas, effective October 1, 1960:

Grade	Dallas-El Paso-Houston		San Antonio	
	Minimum	Maximum	Minimum	Maximum
1	\$2,400	\$3,240	\$2,400	\$3,240
2	2,460	3,300	2,460	3,300
3	2,600	3,515	2,500	3,360
4	2,860	3,860	2,700	3,645
5	3,135	4,230	2,920	3,940
6	3,450	4,660	3,200	4,320
7	3,820	5,150	3,500	4,725
8	4,200	5,670	3,830	5,170
9	4,680	6,320	4,220	5,695
10	5,200	7,025	4,650	6,280
11	5,800	7,800	5,200	6,900
12	6,400	8,700	5,700	7,700
13	7,100	9,600	6,300	8,500
14	7,900	10,700	7,000	9,500
15	8,800	11,900	7,800	10,600
16	9,800	13,300	8,700	11,700

The Board approves the payment of salaries to the employees other than officers within the limits specified for the grades in which the positions of the respective employees are classified. It is assumed that all employees whose salaries

Mr. Irons

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are below the minimums of their grades as a result of these structure adjustments will be brought within the appropriate range as soon as practicable and not later than January 1, 1961.

The Board understands that the anticipated increase in salary expense resulting from the adjustments in salary structures can be handled within the limits of 1960 and 1961 budget estimates.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.