Minutes for September 29, 1960

To: Members of the Board

From: Office of the Secretary

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

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

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

Chm. Martin
Gov. Szymczak
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. King
Minutes of the Board of Governors of the Federal Reserve System

On Thursday, September 29, 1960. The Board met in the Board Room at 10:00 a.m.

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

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

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<th>Item No.</th>
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<td>Letter to Carteret Bank and Trust Company, Carteret, New Jersey, approving an investment in bank premises.</td>
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<td>2</td>
<td>Letter to The National Bank of Slatington, Slatington, Pennsylvania, approving its application for fiduciary powers subject to compliance with Pennsylvania law as to capital requirements.</td>
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<td>3</td>
<td>Letter to The Central National Bank of Sterling, Sterling, Illinois, approving its application for fiduciary powers.</td>
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Report on competitive factors (Charlotte-Statesville, North Carolina). A memorandum from the Division of Examinations dated September 21, 1960, had been distributed submitting a proposed report to the Comptroller...
of the Currency on the competitive factors involved in a proposed merger of Merchants and Farmers Bank of Statesville, Inc., Statesville, North Carolina, with North Carolina National Bank, Charlotte, North Carolina. The conclusion of the report ended with the statement that the net effect of the proposed merger on competition did not appear adverse.

Governor Robertson observed that in North Carolina there is a strong trend toward concentration of banking facilities in the hands of a few large banks. The case under consideration was one more example of the elimination of a small independent bank, thus forcing people to deal with a large institution whether they liked to do so or not. This was a factor he thought should be weighed against the right of the owners of the two banks to merge. He would not wish to approve the last sentence of the conclusion in its present form, Governor Robertson said, because he thought it gave a wrong tone.

Various changes in the wording of the conclusion were suggested, after which Governor Mills expressed the view that the Board should be careful to confine its comments in these reports to the competitive factors in the existing situation. Comments that called attention to a possible future trend could be read by others as affecting the independence and impartiality of the Board's judgment on the competitive factors of the specific case under consideration.

Mr. Solomon said that he had some misgivings about changing the conclusion of the report in a way that seemed to deal with possible future
cases. However, he thought that the point concerning the trend toward concentration in banking in the State of North Carolina could be dealt with without getting into the subject of future cases.

Mr. Hackley expressed the opinion that the language of the merger law and its legislative history indicated that the Board was not only entitled but was expected to consider the effect of a proposed merger on competition throughout the State or even a larger region if it wished, as well as in the immediate local area. Thus, he did not believe it inappropriate to express an opinion about State-wide competition.

The report was then approved unanimously, with the conclusion revised to read as follows:

The proposed merger would constitute a furtherance of the trend toward the concentration of deposits in the State in a relatively small number of large banks. To this extent, the proposed transaction results in elimination of competition in the State. With regard to local competition, the volume of deposits to be transferred to control of the larger bank is minor in the context of area banking resources, and there would be no loss of available banking outlets or of alternate banking facilities as a result of the transaction. The transition in ownership and policy-level management may result in increased local competition for the already large Northwestern Bank in Statesville.

While the effect of the proposed merger on competition between the two banks may not appear adverse, it nevertheless would represent a continuation of what appears to be a trend toward concentration of banking resources in a few large banks in the State.

Messrs. Hooff and Nelson then withdrew from the meeting.
Extensions of time for payment into margin and cash accounts. A memorandum dated September 26, 1960, from the Legal Division had been distributed in regard to extensions of time under sections 220.3(f) and 220.4(c)(6) of Regulation T. Those sections provided that the periods specified for payment into margin accounts and cash accounts may be extended by the appropriate committee of a national securities exchange or association where the committee is satisfied that the creditor is acting in good faith and that "exceptional circumstances" warrant the extension. In the case of a cash account, the committee must also be satisfied that the transaction is a "bona fide cash transaction". It had come to the attention of the Board's staff some time ago that extensions of time were being granted by national securities exchanges and associations under those sections in circumstances not contemplated by the Regulation.

The principal ruling by the Board on the matter, dated April 6, 1956, stated that generally the name and address of the customer should be revealed in applications for extensions of time as an aid in determining whether the application should be granted. Repeated applications on behalf of the same customer for extensions in a cash account would strongly suggest that the transactions were not "bona fide cash transactions," or, in any event, that there were not "exceptional circumstances" of a character that would warrant an extension.

The memorandum suggested four alternative ways in which the Board might deal with this problem, the fourth of which the Division recommended.
That alternative called for the issuance of a ruling by the Board that would restate the principle of the 1956 interpretation; explicitly include extensions in a margin account under section 220.3(f); and emphasize the need to require special care with respect to repeated applications not only (1) for the same customer, but also (2) by the same creditors, and (3) by the same registered representative. A draft of letter embodying such a ruling was attached to the memorandum. The Legal Division recommended that the Board send the letter to the Presidents of all Reserve Banks with a request that it be transmitted to all stock exchanges and security associations in their districts.

In response to an inquiry by Chairman Martin, Miss Hart stated that the problem had come to the staff's attention in the spring of 1959, but that being a background problem, development of recommendations for its solution had been postponed repeatedly. Mr. Solomon added the comment that the situation had existed long before the spring of last year; it actually had existed from the time the Regulation was first put in effect and would probably continue in degree regardless of what action was taken to improve an understanding of the use of this provision of the Regulation.

Chairman Martin stated reasons why he felt that, although the proposed ruling would be helpful and desirable, it would be unwise to issue it at this particular time, especially since it was before the Board not because of any recent instance but as an outgrowth of a continuing problem. He
suggested, therefore, that the matter be tabled for the present and that it be taken up at a more suitable time, perhaps when some other interpretation or change regarding Regulation T was under consideration.

There was general concurrence with Chairman Martin's suggestion.

Withdrawal and substitution rule under Regulation T. Governor King stated that various brokers had commented to him on the present withdrawal and substitution rule under Regulation T, which apparently was causing quite a bit of difficulty. One report was that the rule resulted in considerable confusion on secondary offerings where the transactions were not executed until enough subscriptions came in and the broker executing the transaction did not know exactly when that would be. Another objection was to the pressure caused brokers and customers to accomplish substitutions within the same day when sales were made late in the trading day. Governor King suggested that the Board might at some time consider whether the Regulation might be changed to allow the substitution within 24 hours.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board a letter to the Federal Reserve Bank of Boston (attached Item No. 4) approving the appointment of Sheldon F. Goldthwait, Jr., as assistant examiner.
Board of Directors,
Carteret Bank and Trust Company,
Carteret, New Jersey.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors approves, under the provisions of section 24A of the Federal Reserve Act, the investments made in bank premises of $15,238 for leasehold improvements in your branch and approximately $55,000 for renovations at the main office which resulted in an aggregate investment in bank premises of $107,406.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
Board of Directors,
The National Bank of Slattington,
Slattington, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and, effective upon an increase in the bank's capital stock to not less than $150,000, grants The National Bank of Slattington authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Pennsylvania. The exercise of such rights shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

When advice is received from the Office of the Comptroller of the Currency that the capital stock of The National Bank of Slattington has been increased to not less than $150,000, the minimum capital required by the laws of Pennsylvania for a bank if the population of the borough or township in which the bank is located does not exceed six thousand persons, the Board of Governors will issue and forward a formal certificate evidencing the bank's authority to exercise fiduciary powers.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
Board of Directors,
The Central National Bank of Sterling,
Sterling, Illinois.

Gentlemen:

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

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

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
CONFIDENTIAL (FR)

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

Dear Mr. Groot:

In accordance with the request contained in your letter of September 21, 1960, the Board approves the appointment of Sheldon F. Goldthwait, Jr. as an assistant examiner for the Federal Reserve Bank of Boston. Please advise the date the appointment is made effective.

It is noted that Mr. Goldthwait owns five shares of stock of The Liberty National Bank in Ellsworth, Ellsworth, Maine, and one share of Bar Harbor Banking and Trust Company, Bar Harbor, Maine, a State member bank of which his father is president and director, and that these stocks will be disposed of within the next two weeks. The Board's approval of Mr. Goldthwait's appointment is given with the understanding that he will not participate in any examination of Bar Harbor Banking and Trust Company as long as his father is an officer or director of that bank.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.