

Minutes for March 2, 1961

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

W  
MS  
[Signature]  
R  
CRB  
[Signature]  
[Signature]

Minutes of the Board of Governors of the Federal Reserve System  
on Thursday, March 2, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Fauver, Assistant to the Board  
Mr. Masters, Associate Director, Division of  
Examinations  
Mr. Hexter, Assistant General Counsel  
Mr. O'Connell, Assistant General Counsel  
Mr. Furth, Adviser, Division of International  
Finance  
Mr. Sammons, Adviser, Division of International  
Finance  
Mr. Conkling, Assistant Director, Division of  
Bank Operations  
Mr. Potter, Legal Assistant  
Mr. Thompson, Supervisory Review Examiner,  
Division of Examinations

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

	<u>Item No.</u>
Letter to Mr. C. L. Hufsmith, Chairman of The First National Bank, Palestine, Texas, regarding the question whether monthly account analyses for the purpose of assessing service charges involve a payment of interest on deposits.	1
Letter to Valley National Bank, Glendale, Cali- fornia, granting permission to continue to maintain reserves applicable to banks outside of central reserve and reserve cities.	2

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Application to organize a national bank at Greeley, Colorado.

There had been circulated to the members of the Board a memorandum from the Division of Examinations submitting a draft of letter to the Comptroller of the Currency recommending unfavorably with respect to an application to organize a national bank at Greeley, Colorado.

In discussion of the matter, Governors Mills and Shepardson cited information disclosed by the report of investigation of the Federal Reserve Bank of Kansas City which raised a question as to whether an unfavorable recommendation was warranted in this instance. Mr. Masters indicated that his review of the file had likewise caused him to have some question.

Accordingly, it was understood that Mr. Masters would discuss the application with the Kansas City Reserve Bank, which had suggested an unfavorable recommendation, and that the Board would then consider the matter further.

Application of First Virginia Corporation (Items 3 and 4). On February 23, 1961, the Board approved, with Governor King abstaining, the application of The First Virginia Corporation, Arlington, Virginia, for approval of the acquisition of shares of the Falls Church Bank, Falls Church, Virginia, and the Legal Division was requested to draft for the Board's consideration an order and accompanying statement that would carry this decision into effect. The requested drafts had now been distributed.

It was also agreed at the February 23 meeting that the Legal Division and the Division of Examinations would undertake a study of

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certain points that had been raised in connection with the First Virginia application. These related to (1) an agreement between the applicant holding company and the two principal officers of the Falls Church Bank that had apparently not been disclosed to the other shareholders of the bank and (2) the fact that the applicant holding company had outstanding both voting and nonvoting shares. The understanding was that on the basis of the staff study the Board would determine whether in future holding company cases it would give consideration, and if so to what extent, to factors of this kind, and that in the event of an affirmative determination by the Board a notice would be issued for the benefit of all holding companies. At the meeting on Monday, February 27, it had been agreed, pursuant to a suggestion by Governor Robertson, that information would be sought from First Virginia Corporation as to whether the agreement between First Virginia and the two principal officers of the Falls Church Bank had been disclosed to the other shareholders of the bank. An exchange of correspondence with the holding company followed, and copies of a letter from the holding company dated February 28, 1961, had been distributed to the Board along with a memorandum from Mr. Hexter. The memorandum also covered another question that had been raised in discussion by the Board; namely, whether there was any legal or practical necessity that the proposed transaction be consummated by February 28, 1961. The President of First Virginia Corporation had advised by telephone that although the holding company hoped it would be possible to consummate the transaction by that date, there was no legal or practical necessity.



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First Virginia's letter and Mr. Hexter's memorandum brought out that the two principal officers of the Falls Church Bank had now acquired options on over 90 per cent of the bank's outstanding shares. These options resulted from a solicitation by the two officers in October 1960, at which time reference was made to the agreement between them and First Virginia Corporation only to the extent of stating that the holding company had agreed to purchase not less than 4,080 of the bank's 8,000 outstanding shares at \$275 per share. First Virginia now stated that it would be agreeable to disclosing all of the terms of the agreement to the bank's shareholders if that should be deemed desirable. It also stated that a complete copy of the agreement had been filed with the Securities and Exchange Commission and therefore was a matter of public record.

Mr. Hexter's memorandum brought out that if the Board should conclude that the failure to make full disclosure reflected unfavorably on the character of the management of the Falls Church Bank, and perhaps the management of First Virginia Corporation, the question would arise whether this unfavorable circumstance, weighed along with other pertinent considerations, called for denial of the application. If the Board should decide that the application nevertheless should be approved, then the question would arise whether the failure to disclose should be mentioned in the statement accompanying the Board's order. It was the recommendation in the memorandum that the matter be mentioned in the Board's statement, with an expression of the view that disclosure was called for in such cases. It was not believed that any advantage that would flow from disclosing

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to the bank's shareholders, at this stage, all of the terms of the agreement would be sufficient to justify asking the holding company to follow that course.

In commenting on the matter, Mr. Hexter indicated that Mr. Hackley, General Counsel, and members of the Division of Examinations had some question about the recommendation in his memorandum that reference be made in the Board's statement to the lack of full disclosure. Mr. Hexter went on to review the information now available from First Virginia Corporation and the alternative courses of action open to the Board, following which he read a draft of language that might be included in the Board's statement if the Board continued to feel that the application should be approved but thought it desirable to include in the statement some reference to the lack of full disclosure of the agreement between the holding company and the principal officers of the bank proposed to be acquired.

In this connection, Mr. Sherman brought out that the inclusion of such language in the Board's statement would represent a departure from the understanding at the February 23 meeting, as restated by Governor Szymczak at the February 27 meeting; that is, that the application of First Virginia Corporation was approved, that an order and accompanying statement reflecting the favorable decision of the Board should be prepared by the staff, and that the staff would then proceed to study the weight that should be given in future cases to the points raised in the First Virginia Corporation case in order that the Board might determine whether a general notice on such matters should be issued.

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Chairman Martin indicated that he found it difficult to persuade himself that the lack of full disclosure went beyond the point of thoughtlessness or carelessness on the part of the persons concerned, whereas the inclusion in the Board's statement of language such as Mr. Hexter had suggested would tend in effect to pass judgment on the actions of such persons. Accordingly, he was inclined to doubt that such language should be included.

Governor Shepardson referred to the statement in the letter from First Virginia Corporation that a complete copy of the agreement between First Virginia and the two bank officers was on file with the Securities and Exchange Commission, and therefore was technically a matter of public record. Further, it appeared that there had been news releases indicating that the two individuals in question were to be continued as officers of the Falls Church Bank if the bank was acquired by the holding company. Thus, although the holding company and the officers concerned may have been careless about not divulging the full details of the agreement, other shareholders were in effect put on notice by the news releases and could have raised questions.

Governor Mills said he would accept the order and statement in the form drafted and submitted to the Board for consideration, with the understanding that a staff study would then be undertaken on the basis that had been suggested at the meeting of February 23, 1961. He was not inclined to be as charitable as the Chairman in appraising the actions

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of the two officers in question, and he noted that there had been cases in which damages were assessed against individuals who entered into agreements of this kind without appropriate disclosure. He felt, therefore, that this was something to guard against in the future. On the other hand, he would be concerned if the Board's statement included language such as suggested by Mr. Hexter because that would tend to cast aspersions on individuals identified with the management of both the applicant holding company and the Falls Church Bank. This might affect the degree of respect in which the bank was held by the community and undermine confidence in the bank.

Governor Robertson stated that he would accept the statement as originally drafted. It seemed to him that it would be difficult to include in the statement language such as Mr. Hexter had suggested unless the Board reversed its decision and turned down the application. Furthermore, he was not sure that the Board should single out this one particular case for comment when there may have been similar agreements in other cases that had not come under the Board's scrutiny. He would, however, favor going forward with the staff study that had been mentioned, with a view to determining whether the Board was going to require full disclosure of all such agreements in future cases. If so, he felt that the Board should put all holding companies on notice.

After further discussion, unanimous approval was given to the issuance of an order and accompanying statement approving the application



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of First Virginia Corporation, the documents to be in the form of the drafts submitted to the Board prior to this meeting. It was understood that the order would reflect the votes cast by the members of the Board at the meeting on February 23, 1961, at which time Governor King abstained from participating in this decision. Copies of the Order and Statement issued pursuant to this action are attached as Items 3 and 4, respectively.

Messrs. Thompson and Potter then withdrew from the meeting.

Application of Wells Fargo Bank American Trust Company (Item No. 5).

There had been distributed to the members of the Board copies of a memorandum from the Division of Examinations dated February 23, 1961, recommending approval of the application of Wells Fargo Bank American Trust Company, San Francisco, California, for permission to merge with the Pajaro Valley Bank, Watsonville, California, and to operate branches at the two offices of the Pajaro Valley Bank. The recommendation of the Federal Reserve Bank of San Francisco was favorable. In their reports on competitive aspects the Comptroller of the Currency and the Federal Deposit Insurance Corporation expressed the view that the effect of the proposed transaction on competition would not be adverse. The Department of Justice commented that the merger would unite the third largest bank in California and a local bank in the city of Watsonville, that it would eliminate some existing and potential competition between the two banks, and that it would further increase the concentration of commercial banking in a State with a high degree of existing concentration, due in substantial measure to past acquisitions by the applicant.

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The memorandum from the Division of Examinations pointed out that the applicant bank did not compete to any extent in the service area of the Pajaro Valley Bank, that it had no branches within 10 miles of the offices of the Watsonville bank, and that the applicant's share of bank deposits in the State of California would be increased by less than 1/8 of one per cent to a figure of approximately 9.9 per cent. The resulting bank would provide the community and the present and potential customers of the local bank with a stronger institution offering a wider range of banking services and a larger credit source, which would appear to be in the public interest.

Governor Robertson said that he regarded this as a close case, one in which the factors pro and con were not entirely clear. However, he could not find significant factors favorable to approval of the application. The suggestion of additional service was not impressive to him, and it did not appear that the present or future management of the local bank presented any substantial problem. Essentially, in his judgment, the matter came down to the fact that a large institution was in the process of expansion through mergers, and had already made large strides in that direction over the past several years. In this case the applicant bank wanted to expand further and was willing to accomplish that expansion at a premium equal to about 6 per cent of the local bank's deposits. Therefore, he had concluded that he would want to vote against approval of the application on the basis of the size of the applicant institution,

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its history of expansion, and the price it was paying for the stock to be acquired. The price to be paid was of course essentially the business of the applicant institution; nevertheless, it indicated an expansionistic attitude on the part of management. The merger would eliminate a sound independent bank and its consummation would represent a further move in the direction of concentration of banking in the State of California, which he did not believe was in the public interest. As he had said, the case was not black and white, but on balance he would lean on the side of disapproval.

Mr. Masters said he would agree that the management situation at the local bank offered no substantial basis for approval. However, the Division of Examinations did not regard this application as one of a particularly borderline character. Consummation of the transaction would have virtually no effect on competition, and there would be no reduction of banking facilities. The merger would bring into the Watsonville area a strong bank which apparently would provide sharper competition with the local branch of Bank of America National Trust and Savings Association. Also, although the point was not particularly controlling, the local bank was said not to be meeting fully the loan demands of the community. As to the position of Wells Fargo, it was the third largest bank in California. However, it had only 10 per cent of the deposits and 7 per cent of the banking offices in the State, and the proposed merger would have virtually no effect on the existing percentages. In the circumstances, consummation

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of the merger would seem of such minor consequence in relation to the over-all position of Wells Fargo that the Division felt the application could be approved.

With reference to the ability of the local bank to meet fully the credit demands of its community, Governor Robertson suggested that this appeared to reflect principally a contention on the part of the applicant bank.

Governor Mills indicated that on balance he felt that approval of the application would be a reasonable decision. He pointed out that Bank of America now had an office in Watsonville. Also, as he recalled the file, other large banking organizations in California had requested permission to establish branches in the area. If such applications were approved, the independent bank would be exposed to additional competition from large institutions. If the present application to merge were denied, and unless the Board at some future time should be disposed to approve a proposal from one of the other large banking organizations to merge with the Watsonville bank, the effect would be to force the independent bank to continue in competition with much larger institutions and deny it the privilege of merging, of its own free will, with the banking institution of its choice.

Other members of the Board having indicated that they concurred in the recommendation of the Division of Examinations, the application of Wells Fargo Bank American Trust Company was approved, Governor Robertson



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dissenting for the reasons he had stated. A copy of the letter sent to the applicant bank pursuant to this action is attached as Item No. 5.

Messrs. Thomas and Young, Advisers to the Board, and Noyes, Director, Division of Research and Statistics, entered the room at this point.

Draft bill to amend section 19 of the Federal Reserve Act (Item No. 6). Pursuant to the understanding at yesterday's meeting of the Board, there had been distributed copies of a revised draft of letter to the Bureau of the Budget regarding a draft bill proposed by the Treasury Department "to amend section 19 of the Federal Reserve Act, as amended, to remove the authority to limit the rate of interest paid on time and savings deposits of foreign governments and international institutions".

The draft letter would state that the Board did not object to enactment of the proposed legislation. It would go on to point out, however, that if certain described circumstances, different from those now prevailing, should develop in the future the complete absence of authority over deposit interest rates paid by commercial banks in the United States to foreign central banks and monetary authorities might have detrimental results. Accordingly, it would be suggested that the following clause be added to the proposed amendment: "except that the Board of Governors of the Federal Reserve System shall be authorized to limit the rate of interest on such deposits whenever the Board deems such action necessary in the light of the general credit situation of the

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United States". The letter would point out that the proposed amendment referred to "time and savings deposits" of foreign governments, monetary and financial authorities of foreign governments, or international financial institutions, and that no such institution would be eligible under regulations of the Board to maintain a savings deposit with a member bank. It would likewise call attention to the fact that the proposed amendment would not cover foreign deposits with nonmember insured banks, which are subject to interest rate limitations imposed by the Federal Deposit Insurance Corporation.

Chairman Martin stated that he had talked with the Secretary of the Treasury and that there had also been discussion of the matter with Under Secretary of the Treasury Roosa when the latter was in the Board's building for luncheon yesterday. In view of these discussions, Chairman Martin proposed that the Board simply advise the Budget Bureau that at the moment it had no objection to the proposed legislation. He noted that that was the position arrived at by the majority of the Board after discussion at the meeting on Tuesday, February 28, at which time it was understood that the Board's views would be transmitted to the Budget Bureau informally and that no letter would be written unless, after further discussion with the Treasury, the Board felt that it could agree on some letter reflecting a position that was also agreeable to the Treasury. Chairman Martin said he saw no reason for the Board to inject itself into a position of assuming responsibility for the proposed

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legislation or in fact for saying anything unless it was sure that it was in agreement with the Treasury. As he understood the discussion on February 28, with one dissent (Governor Robertson), the Board was in agreement with the thought of advising the Budget Bureau informally that it would not object to the draft bill.

The Chairman went on to say that he did not see any reason why the Board should not continue to discuss the general problem. For example, the point had been made by Mr. Thomas that probably the whole matter could be resolved if the Board should decide to raise the maximum rate of interest payable on time and savings deposits from 3 per cent to 3-1/2 per cent. However, as Governor Mills had pointed out, that would seem to go contrary to steps that the Administration had been taking in other respects, including the reported discussions of the Secretary of the Treasury with savings and loan representatives regarding possible reduction of the dividend rates paid by such associations. This was something that the Board ought to bear in mind.

After expressing the view that the discussions by the Board had been valuable, the Chairman referred to the negotiable certificates of deposit that certain New York banks had indicated they were going to make available to corporations. In this connection, he noted reports that there was pressure on New York City banks with no branches in London and Paris to open branches abroad, so as to participate in the business available in those centers. If there was such pressure, it would seem

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that the Board should give serious thought to the matter of increasing the maximum rate on time deposits, with applicability to domestic as well as foreign deposits. Unless the law should be changed, he felt that the Board had a serious responsibility to try to meet that kind of competitive problem. As he had pointed out, however, there would be the question of increasing the ceiling rate on time deposits while the Administration was discussing rates with the savings and loan people, and at a time when there was perhaps some pressure on the commercial banks to lower the prime rate. Thus, the whole area was controversial.

Chairman Martin stated that he would distribute to the other members of the Board copies of a memorandum dated February 13, 1961, from Mr. James Tobin, member of the Council of Economic Advisers, to Under Secretary of the Treasury Roosa. A copy of Mr. Tobin's memorandum had been transmitted to Chairman Martin under date of March 1, 1961, by Chairman Heller of the Council of Economic Advisers. The Tobin memorandum related in general to the relationships between the level of long-term interest rates, monetary policy, and economic recovery.

The Chairman then repeated that, if agreeable to the Board, he would suggest that Mr. Hexter or Mr. Hackley be requested to call the Budget Bureau and say that the Board did not object to the draft bill submitted by the Treasury. It would also be stated that there were some points still under discussion between the Board and the Treasury.



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Governor Shepardson said he would agree that it was questionable whether the Board would want to suggest that it be given authority to step in at some point. He raised the question, however, whether the view was being conveyed to the Treasury that a significant problem might arise at some future time, under conditions different than those prevailing today, in the complete absence of authority over deposit interest rates paid by American banks on foreign deposits.

Chairman Martin replied that there had been an opportunity yesterday to discuss the problem with Under Secretary Roosa, and that the General Counsel of the Treasury also was present. Further, the Chairman said, he had used the same illustration in talking with the Secretary of the Treasury. Accordingly, he felt that the Treasury had been placed adequately on notice.

Mr. Hexter reported having received a telephone call yesterday from a member of the Treasury's legal staff who expressed a preference for leaving the reference to both time and savings deposits in the draft bill in order to conform with language used elsewhere in the statute. Mr. Hexter felt that this was a point of little real substance and instead involved principally a matter of language. It appeared that the lack of reference in the draft bill to the situation in respect to nonmember insured banks was an oversight and would be corrected.

Chairman Martin then said that he still came back to what had been essentially his position all along. If the Treasury was going to

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ask for legislation of this kind, he would rather not have the Federal Reserve placed in a position of responsibility for deciding when an interest rate ceiling on foreign time deposits should be restored.

Governor Shepardson inquired whether there was any indication that the Treasury would support a complete repeal of the statute requiring the Board to fix maximum rates on time and savings deposits, as had been recommended to the President by the committee of which Mr. Allan Sproul was Chairman.

Chairman Martin replied that, without consulting the other members of the Board, he had indicated that he would personally support a recommendation for repeal of the statute. In making that comment, he had made it clear that he could not say what the Board's position would be, and he offered to take the matter up with the Board. He understood, however, that upon further consideration it had been decided not to proceed with such a recommendation, and therefore the matter had never come to the Board.

The Chairman went on to say that he would be willing to go along with the suggestion of Governor Robertson for increasing the maximum rates on time and savings deposits, as set forth in Governor Robertson's recent memoranda and discussed by the Board, except for the fact that he felt this might not meet fully the Board's responsibility as set forth in the statute. At least, he believed that the establishment of the proposed ceiling rates might be so interpreted. Looking to the future, and assuming

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prosperous conditions, it was his view that possibly the best thing that could happen as far as the Board was concerned would be a repeal of the statutory provisions in entirety. On the other hand, he would be opposed to removing the prohibition against payment of interest on demand deposits.

Governor Balderston said he thought the proposed solution with regard to the reply to the Budget Bureau on the draft bill was a good one. The Treasury having been made aware of the problems involved, the view of the Board might now be transmitted informally by the legal staff along the lines suggested; that is, that the Board would not object to the proposed legislation, but there were some matters still being discussed with the Treasury.

Chairman Martin commented that the person contacting the Budget Bureau should mention also the lack of reference in the draft bill to the situation in respect to nonmember insured banks.

Governor Balderston commented that the various points that had been discussed by the Board would be referred to in the Board's minutes, and that he felt this would make a satisfactory record. He then turned to the question of initiating a recommendation for legislation to amend the statutory provisions requiring the Board to fix ceiling rates on time and savings deposits. It was his feeling that as long as the present statute was in existence, the Board was not free to raise the ceiling rates in the manner that Governor Robertson had suggested. However, he was concerned that commercial banks were under closer limitations than

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other types of financial institutions competing for savings funds. The Board, of course, could request a modest change in the statute with a view to eliminating some of the questions of interpretation with which it had to deal from time to time, but that would not reach to the heart of the problem that the Chairman had touched on today and Governor Robertson had discussed previously. The manner in which savings and loan associations and credit unions had moved ahead in recent years in the competition for savings funds gave him some concern. The commercial banks were under maximum supervisory attention, yet the limitations imposed on them had enabled newer forms of financial institutions to grow faster.

In response to a question by Governor Robertson, Governor Balderston said that some time ago he had raised with a group of people the question whether the present legislation, which stemmed from the difficulties of the early 1930's, was intended to go only to the marginal units or also to the run-of-the-mine banks. From this study he came to the conclusion that the Congress had in mind the over-all situation; a fairly large number of banks had sought to achieve deposit growth by paying more than they could afford and by making imprudent loans and investments. Consequently, he felt that the Board was not free to raise the maximum rates so high as to permit the resumption of the same kind of imprudent practices.



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Governor Robertson replied that there had been long periods when the Board's ceiling rate was substantially above not only the average rate paid but also the rate paid by all except a very few banks. However, that was not the situation today. He added that in trying to determine what the Congress may have had in mind, one could look only at the language of the statute; the legislative history was not indicative of Congressional intent. He doubted whether a lawyer could be found who would say that an increase in the maximum rates such as he had suggested would be even on the boundary of going beyond the power of the Board. As he saw it, the Board had gotten to the point where it was keeping banks who wished to do so from competing effectively for time and savings funds, and questions such as the rate payable on foreign time deposits therefore were bound to arise. Further, it was his feeling that a Congressional committee would wonder why the Board wanted the statute changed when the present statute gave the Board power to do the very thing that was desired. If the statute should be repealed, the Board could do nothing. Accordingly, he would prefer to have the Board raise the ceiling and have authority available to lower it if in the Board's judgment that became necessary.

Chairman Martin commented that it was not possible to run away from the problem and that there was much in what Governor Robertson had said. He doubted whether the move to issue negotiable time certificates to corporations would have come up if there had been a higher ceiling rate on time deposits. The banks would have simplified the Board's

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problem in one sense if they were willing to make the certificates available to domestic as well as foreign corporations. They had suffered a fairly large competitive loss of deposits, he noted, and one could hardly expect them to stand by and not take notice. In some way, the Board must deal with this problem.

At the conclusion of the discussion, it was understood that, as suggested by Chairman Martin, the Bureau of the Budget would be advised by telephone that the Board would not object to enactment of the proposed legislation to amend section 19 of the Federal Reserve Act that had been submitted by the Treasury. It was further understood that the Bureau would also be advised that some points were still under discussion between the Board and the Treasury. Reference likewise would be made to the fact that the bill did not cover foreign deposits carried with nonmember insured banks, which are subject to interest rate limitations imposed by the Federal Deposit Insurance Corporation; and to the fact that although the proposed amendment referred to "time and savings deposits" of foreign governments, monetary and financial authorities of foreign governments, or international financial institutions, no such institution would be eligible under the regulations of the Board to maintain a savings deposit with a member bank.

Secretary's Note: Later in the day Mr. Hackley so advised the Budget Bureau by telephone. Subsequently, it was learned that the Treasury felt it would be helpful if a brief letter confirming the Board's position could be sent to the Budget Bureau. Accordingly, the letter of which a copy is attached as Item No. 6 was sent to the Budget Bureau on March 3, 1961.

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Annual Report of the Board for 1960. Mr. Sherman advised that the Annual Report of the Board for 1960 would be available from the printer by March 9, 1961. Accordingly it was agreed unanimously that, pursuant to the requirement in section 10 of the Federal Reserve Act, the report would be transmitted to the Speaker of the House of Representatives on that date. It was understood that the report would also be transmitted to the President of the Senate and that distribution of the report to other parties would be made in accordance with the customary procedures.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Memoranda from appropriate individuals concerned recommending increases in the basic annual salaries of the following persons on the Board's staff, effective March 5, 1961:

Judith M. Golodner, Secretary, Division of Bank Operations, from \$4,675 to \$4,995 per annum.

W. J. McClelland, from \$13,510 to \$14,055 per annum, with a change in title from Administrative Assistant to Assistant to the Director, Division of Examinations.

Letter to the Federal Reserve Bank of New York (attached Item No. 7) approving the appointment of William M. Winans as assistant examiner.

  
Secretary

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

Item No. 1  
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ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 2, 1961

Mr. C. L. Hufsmith, Chairman,  
The First National Bank,  
Palestine, Texas.

Dear Mr. Hufsmith:

The Board has carefully considered your letters of January 27, 1961, addressed to Chairman Martin, with further reference to the question whether monthly account analyses for the purpose of assessing service charges involve a payment of interest on deposits.

Your letter suggests that, in its past consideration of this subject, the Board has not given attention to all aspects of the typical form of monthly account analysis used by member banks, particularly the item of "Earnings Credit" which normally appears in such analyses as a deduction from the cost of services rendered. In its first public statement regarding this matter in January 1944 (1944 Federal Reserve Bulletin, p. 13), the Board specifically considered the effect of the item in a member bank's monthly account analysis that gave effect to the theoretical earning value of the account for the month involved. As there indicated, however, it was the Board's conclusion that such an account analysis was simply an internal arrangement to enable the bank to determine what, if any, charges should be made by it against its customers for services performed and that it did not involve any payments by the bank to depositors so as to result in an indirect payment of interest on demand deposits in violation of the law or the Board's Regulation Q.

Although this matter has again been reviewed in the light of exhaustive correspondence between you and the Board since 1945, the views of the Board continue to be those expressed in its 1944 statement and reiterated in the Board's previous letters to you.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



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

Item No. 2  
3/2/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 2, 1961

Board of Directors,  
Valley National Bank,  
Glendale, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Valley National Bank to maintain the same reserves against deposits as are required to be maintained by banks located outside of central reserve and reserve cities, effective as of the date it opened a branch in the city of Los Angeles.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

Item No. 3  
3/2/61

## UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

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In the Matter of the Application of  
THE FIRST VIRGINIA CORPORATION  
for prior approval of acquisition of  
voting shares of Falls Church Bank,  
Falls Church, Virginia.

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ORDER APPROVING APPLICATION UNDER  
BANK HOLDING COMPANY ACT

There having come before the Board of Governors pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 (12 USC 1842) and section 4(a)(2) of the Board's Regulation Y (12 CFR 222.4(a)(2)), an application on behalf of The First Virginia Corporation, Arlington, Virginia, for the Board's prior approval of the acquisition of 51 per cent or more of the voting shares of Falls Church Bank, Falls Church, Virginia; a Notice of Receipt of Application having been published in the Federal Register on November 29, 1960 (25 Federal Register 12209), which provided interested persons an opportunity to submit comments and views regarding the proposed acquisition; and the time for filing such comments and views having expired and no such comments or views having been filed;

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IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that the said application be and hereby is granted, and the acquisition by The First Virginia Corporation of 51 per cent or more of the voting shares of Falls Church Bank, Falls Church, Virginia, is hereby approved, provided that such acquisition is completed within three months from the date hereof.

Dated at Washington, D. C., this *2<sup>nd</sup>* day of March, 1961.

By order of the Board of Governors.

Voting for this action: Chairman Martin, and Governors Balderston, Szymczak, Mills, Robertson, and Shepardson.

Present and not voting: Governor King.

(Signed) Merritt Sherman

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Merritt Sherman,  
Secretary.

(SEAL)



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Item No. 4  
3/2/61

APPLICATION BY THE FIRST VIRGINIA CORPORATION, ARLINGTON,  
VIRGINIA, FOR PRIOR APPROVAL OF ACQUISITION OF SHARES OF  
FALLS CHURCH BANK, FALLS CHURCH, VIRGINIA

STATEMENT

The First Virginia Corporation, Arlington, Virginia ("First"), a registered bank holding company, has applied pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 ("the Act"), for the Board's prior approval of the acquisition of 51 per cent or more of the capital stock of Falls Church Bank, Falls Church, Virginia ("Bank").

Views and recommendations of the Commissioner of Banking for the State of Virginia. - As required by section 3(b) of the Act, the Board forwarded notice of the application to the Commissioner of Banking for the State of Virginia, who stated that he had no objection to approval.

Statutory factors. - Section 3(c) of the Act requires the Board to take into consideration the following five factors: (1) the financial history and condition of the holding company and bank concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities and the area concerned; and (5) whether or not the effect of the acquisition would be to expand the size or extent



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of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

Discussion. - First presently controls four banks in the counties of Arlington, Fairfax, Prince William, and Loudoun, with a total of eight offices and aggregate deposits of about \$60,580,000 as of October 3, 1960. Its largest subsidiary bank is Old Dominion Bank, Arlington, with four offices and total deposits of about \$44,650,000. The bank to be acquired has three offices with total deposits of about \$19,000,000. Its main office and one branch are located in the independent City of Falls Church, which lies between Arlington and Fairfax counties; all of these areas are in the Washington, D. C., Metropolitan Area. The other branch is nearby in Arlington County. Falls Church, with a population of over 10,000, occupies an area of approximately two square miles. Arlington and Fairfax counties together have a population of over 420,000 within an area of about 430 square miles.

The financial history and condition, prospects, and management of both First and Bank are presently satisfactory and would be expected to continue so. There is evidence that the acquisition would enable First to assure effective management succession in Bank and there is some possibility that the acquisition would increase the availability of new

capital to support expansion of banking activities in connection with growth in the area. However, these considerations alone do not provide compelling reasons for approval of the application.

It appears that the provision of full banking services at Bank's two branches, as proposed by First, would benefit the areas served by them. However, consideration of all aspects of the convenience, needs, and welfare of the areas concerned discloses no substantial support for approval on this ground, because it is probable that Bank would continue to serve its community and area adequately even if not owned by First. On the other hand, consideration of this factor discloses nothing inconsistent with approval.

At present, First controls nearly 17 per cent of the commercial banking offices and 23.5 per cent of total deposits of individuals, partnerships, and corporations ("IPC deposits") of banks in Falls Church and the 4 counties in which First's banks operate. The proposed acquisition would cause it to control in those counties and the City of Falls Church 23 per cent of banking offices and 30 per cent of IPC deposits. For the more immediately affected areas of Arlington and Fairfax counties and the City of Falls Church, the effect of the acquisition would be to increase First's percentage of banking offices from about 16 per cent to about 26 per cent and its percentage of IPC deposits from about 25 per cent to about 33 per cent.

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Bank's primary service area consists of the City of Falls Church and portions of Arlington and Fairfax counties. In that area are four other banking offices, none of which is controlled by First. However, one of First's banks has been authorized to establish a branch in Bank's primary service area. There are 16 banking offices (3 of which are in First's system) within a radius of 4 miles of Bank's offices.

After the acquisition there would remain in Arlington and Fairfax counties 23 banking offices not controlled by First. Bank's primary service area does not now overlap that of any of First's subsidiaries. Only two of First's subsidiaries (those in Arlington and Fairfax counties) draw IPC deposits of any significance from Bank's primary service area; at September 30, 1960, the amount in each case was less than 5 per cent of the subsidiary's total IPC deposits, and the aggregate was an amount equal to approximately 15 per cent of Bank's IPC deposits. Nearly three per cent of Bank's IPC deposits originated from the primary service areas of the two subsidiaries, and this amount equaled about one per cent of the aggregate IPC deposits of the two subsidiaries.

Accordingly, it appears that the acquisition would result in the elimination of some competition. However, the provision of full banking services at Bank's two branches would enhance banking competition in the area to some extent and, in the Board's opinion, the acquisition would



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not have a materially adverse effect on the competitive position of other banks in the area concerned; nor would the control of Bank by First deprive the public of adequate alternative sources of banking service.

Consideration of the facts in this case does not indicate that the proposed acquisition would expand the size of the First system or the resources within its control beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

It is the judgment of the Board, based on the relevant facts considered in the light of the general purposes of the Act and the factors enumerated in section 3(c) thereof, that the proposed acquisition would be consistent with the statutory objectives and the public interest, and that the application should be approved.



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

Item No. 5  
3/2/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 2, 1961



Board of Directors,  
Wells Fargo Bank American  
Trust Company,  
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System, after consideration of all the 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 Pajaro Valley Bank, Watsonville, California, with and into Wells Fargo Bank American Trust Company, San Francisco, California, under the charter and title of the latter bank. The Board of Governors also approves the operation of branches by the resulting bank at the following locations:

326 Main Street, Watsonville

1501 Freedom Boulevard, Watsonville

This approval is given provided (1) the proposed merger is effected within six months from the date of this letter and substantially in accordance with the Agreement for Merger approved by the boards of directors of both banks on December 13, 1960, and (2) shares of stock acquired from dissenting shareholders are disposed of within six months from date of acquisition.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

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

Item No. 6  
3/2/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



March 3, 1961.

Mr. Phillip S. Hughes,  
Assistant Director for  
Legislative Reference,  
Bureau of the Budget,  
Washington 25, D. C.

Dear Mr. Hughes:

This is in response to your letter of February 27, 1961, requesting the views of the Board of Governors with respect to a draft bill proposed by the Treasury Department "To amend section 19 of the Federal Reserve Act, as amended, to remove the authority to limit the rate of interest paid on time and savings deposits by foreign governments and international financial institutions."

The Board of Governors does not object to enactment of the proposed legislation.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman".

Merritt Sherman,  
Secretary.

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

Item No. 7  
3/2/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 2, 1961

CONFIDENTIAL (FR)

Mr. Howard D. Crosse, Vice President,  
Federal Reserve Bank of New York,  
New York 45, New York.

Dear Mr. Crosse:

In accordance with the request contained in your letter of February 23, 1961, the Board approves the appointment of William M. Winans as an assistant examiner for the Federal Reserve Bank of New York. Please advise us of the effective date of the appointment.

It is noted that Mr. Winans is indebted to The Franklin Trust Company of Paterson, Paterson, New Jersey, a nonmember bank, and to The Edgewater National Bank, Edgewater, New Jersey, for home improvement loans in the amounts of \$490 and \$450, respectively, and to The Garden State National Bank of Teaneck, Teaneck, New Jersey, in the amount of \$7,900 for a mortgage on his home. Accordingly, the Board's approval of the appointment of Mr. Winans is given with the understanding that he will not participate in any examination of these institutions until his indebtedness has been liquidated.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.