

Minutes for March 8, 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

The image shows handwritten initials and signatures on horizontal lines next to the names of the Board members. From top to bottom: Chm. Martin has a large circular initial 'M'; Gov. Szymczak has initials 'SS'; Gov. Mills has a large, stylized signature; Gov. Robertson has initials 'R'; Gov. Balderston has initials 'B'; Gov. Shepardson has initials 'S'; Gov. King has initials 'K'.

Minutes of the Board of Governors of the Federal Reserve System
on Wednesday, March 8, 1961. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson
Mr. King

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Chase, Assistant General Counsel
Mr. Furth, Adviser, Division of International
Finance
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mrs. Semia, Technical Assistant, Office of the
Secretary

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on March 6, 1961, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

Report on competitive factors (Quincy-Norwood, Massachusetts).

A draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of Norwood Bank and Trust Company, Norwood, Massachusetts, with and into South Shore National Bank of Quincy, Quincy, Massachusetts, had been distributed with a memorandum from the Division of Examinations dated February 27, 1961. The conclusion in the report read as follows:

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Competition between South Shore and Norwood is practically nonexistent. As a result of the proposed merger, the South Shore bank would not appear to gain any significant competitive advantage in its over-all service area. Competition would be increased in the area now served by the Norwood bank without apparent adverse effect on the present banking situation.

After a brief discussion, the report was approved unanimously for transmission to the Comptroller of the Currency.

Report on competitive factors (Poughkeepsie-Highland Falls, New York). A draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of First National Bank in Highland Falls, Highland Falls, New York, with and into The First National Bank of Poughkeepsie, Poughkeepsie, New York, had been distributed with a memorandum from the Division of Examinations dated March 2, 1961.

Governor Mills suggested alternative wording for the conclusion in the report, the general effect of which was to strengthen the position taken in the draft. Agreement having been expressed with the alternative wording, the report was approved unanimously for transmission to the Comptroller of the Currency in a form in which the conclusion read as follows:

The proposed merger would result in the conversion of an independent bank to a branch of a larger bank and the transfer to the resulting bank of an existing near "monopoly" in the relatively restricted service area of First in Highland Falls.

While there would be no appreciable increase in the aggregate resources of Marine Midland Corporation, it would result in Marine Midland Corporation's entry into another county in which it presently has no direct representation and,

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in effect, would expose the many smaller banking institutions operating in the same market area to enhanced competition from the presence of a bank holding company controlling preponderant resources and operating through multiple outlets within the State of New York.

Report on competitive factors (Benton Harbor-Buchanan, Michigan).

A draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed consolidation of Benton Harbor State Bank, Benton Harbor, Michigan, and Union State Bank, Buchanan, Michigan, had been distributed with a memorandum from the Division of Examinations dated February 28, 1961. The conclusion in the report read as follows:

The proposed consolidation would eliminate the moderate amount of competition existing between the two banks involved. The increased size of the resulting bank should enable it to provide more effective competition for the larger banks serving the Benton Harbor-St. Joseph and Buchanan-Niles areas.

The report was approved unanimously for transmission to the Federal Deposit Insurance Corporation.

Investment by Chase International Investment Corporation (Item No. 1). A memorandum dated March 2, 1961, from the Division of Examinations had been distributed in connection with a request by Chase International Investment Corporation, New York City, for permission to exercise warrants for ordinary shares of Eregli Iron and Steel Manufacturing Corporation, a Turkish corporation organized to erect and operate a steel mill. The warrants were to be acquired in connection with the purchase by Chase International of \$2 million of Class A debentures of Eregli. A draft of letter granting the requested permission accompanied the memorandum.

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In commenting on the matter, Governor Mills expressed concern about a statement in the memorandum from the Division of Examinations to the effect that \$3 million of Class B debentures to be issued by Eregli would be placed through the trust department of the parent Chase Manhattan Bank in various pension funds. These debentures would be fully guaranteed by Koppers, Blaw-Knox, and Westinghouse. It occurred to Governor Mills that the arrangement had some taint of self-serving; he questioned whether the debentures were proper pension trust investments, even though the guarantors were responsible parties. Therefore, although he would vote to approve the current application, he would suggest when the trust department of Chase was next examined a check be made to see what disposition had been made of the debentures.

Governor Robertson stated that in view of the present provisions of Regulation K, the policy that had been followed by the Board, and the fact that the current request fell within the scope of that policy, he would approve the application. However, he had grave doubts as to the ultimate results of such a policy.

Mr. Furth observed that the Turkish steel mill project had been considered extensively by the staff of the National Advisory Council because substantial loans by the Development Loan Fund were involved. There had been indications of enthusiasm on the part of interested Government agencies concerning the project, the only reservation expressed being that it would seem desirable if more private capital could be induced to participate.

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After further discussion, the proposed letter to Chase International granting the requested permission was approved unanimously. A copy is attached as Item No. 1.

Investment by Morgan Guaranty International Finance Corporation (Item No. 2). A memorandum dated March 3, 1961, from the Division of Examinations had been distributed in connection with an application by Morgan Guaranty International Finance Corporation, New York City, for permission to purchase 120,000 shares of Roberts, S. A. de Finanzas, Buenos Aires, Argentina. The memorandum set out the purposes for which the Argentine corporation was being formed, the various organizations that were expected to participate in its ownership, and the reasons why Morgan Guaranty wished to invest in it. A draft of letter to Morgan Guaranty granting the requested permission was submitted with the memorandum.

After a brief discussion, the letter was approved unanimously. A copy is attached as Item No. 2.

Condition applicable to Edge corporation investments. Governor Robertson observed that Board letters granting permission for Edge corporation investments customarily included a condition providing that the Edge corporation was to dispose of the investment as promptly as practicable in the event that the organization in which the investment was made should at any time conduct its operations in a manner which, in the judgment of the Board of Governors, was inconsistent with section 25(a)

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of the Federal Reserve Act or related regulations. Governor Robertson inquired as to the intent and prospective effectiveness of such a condition.

Mr. Goodman responded that the condition was intended to be in the nature of a caveat to give the Board grounds for action in the event future operations were such that, although not illegal, they might be considered inconsistent with the spirit of the law or regulation.

Mr. Solomon commented to the same effect, indicating that the condition was included in an effort to reserve to the Board the right to require correction of future situations that it might think undesirable. It would be difficult to spell out what would constitute such a situation, and the condition therefore was broadly worded. That might be a disadvantage to the Board if it should seek to enforce the condition, but the staff had not been able to devise anything more satisfactory.

In further discussion, it was pointed out that one possible situation in which the Board might think action under the condition desirable would be an investment by an Edge financing corporation in a company that in turn had an investment in a bank. In response to a question by Governor Robertson as to whether such an investment by a company several steps removed from an Edge corporation would be detected, Mr. Goodman replied to the effect that it was the practice in examining Edge corporations to scrutinize investments carefully. While it might be possible that an investment several steps down in the structure would go

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undetected, he thought that in most cases an investment of such nature as to raise a question would come to light.

Governor Robertson indicated that in any event he felt it might be difficult to distinguish between operations consistent with the law and regulation and those that were not. He then suggested that a study be made by the staff as to whether the condition he had cited should not be deleted in future cases.

Mr. Goodman asked whether this point could be included as part of the study of Edge corporation investments previously requested by the Board, and it was understood that such a procedure would be satisfactory.

Messrs. Furth and Goodman then withdrew from the meeting.

Application of Marine Midland Trust Company of Southern New York.

A memorandum dated February 20, 1961, from the Division of Examinations had been distributed in connection with the application of Marine Midland Trust Company of Southern New York, Elmira, New York, for permission to merge with the First National Bank and Trust Company, Ithaca, New York, and to operate two branches incident to the merger. Both the Federal Reserve Bank of New York and the Division of Examinations recommended approval. Statements regarding the views expressed on competitive factors by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Department of Justice were included in the Division memorandum. The first two agencies were of the opinion that the proposed merger would not have an adverse effect on competition. The report of

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the Department of Justice, however, included a statement that "it would appear that the substitution of the charter bank for one of the two independent banks in the area would seriously impair the opportunity for the remaining bank to profitably exist." The opinion was expressed that the proposed acquisition would have a substantial adverse effect on competition in the service area of the merging bank and would tend toward monopoly.

Governor Mills opened the discussion by stating that in his opinion the application should be denied. In explanation of his opinion he made the following statement:

The application of the Marine Midland Trust Company of Elmira, New York, to merge with the First National Bank and Trust Company, Ithaca, New York, is a case in point where overriding consideration must focus, first, on the local competitive situation and, secondly, on more general competitive problems.

Although direct competition between the two banks at interest is not active, consent to the merger proposal would introduce into Ithaca a competitor controlling resources on a scale susceptible of damage to the competitive position not only of the Tompkins County Trust Company of Ithaca but also of other smaller banking institutions operating in the New York State Seventh Banking District.

As to general competitive problems, the application exhibits a tendency to monopoly and, all told, its consummation would be contrary to the public interest and should, therefore, be disapproved.

Mr. Solomon commented that in his opinion this was a rather close case. Although the Division recommendation was for a favorable decision, and he thought that recommendation was reasonably well supported in the memorandum, there were substantial considerations on the other side.

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Mr. Leavitt agreed with Mr. Solomon's view that the case was a close one. He believed, however, that the Division recommendation was warranted. As brought out in the memorandum, Marine Midland was not presently serving the Ithaca area, although it was serving most of the other areas in the Seventh Banking District of New York State. As to the question Justice had raised regarding the possible resultant difficulties that the remaining independent bank in Ithaca might experience, a study indicated that independent banks in the areas presently served by Marine Midland had grown as rapidly as the Marine Midland affiliates.

Governor Robertson observed that under the terms of the proposal, stockholders of the Ithaca bank, the shares of which had a market value of about \$55, would receive for each share they held 3-1/2 shares of Marine Midland Corporation with a market value of about \$25 a share. Whenever he saw such a premium being paid, a question was raised in his mind as to whether the proposed transaction was an attempt to expand rather than an effort by a small bank to sell. He did not see any strong factors on the favorable side in this case. The asserted benefits to the public were nebulous; there was no indication that the banks presently in Ithaca were not meeting the needs of the community adequately. Moreover, Marine Midland Corporation had been using both mergers and direct acquisitions to expand rapidly. He believed that the Board should think in terms of how fast Marine Midland was expanding and halt its growth before it reached a size out of keeping with the New York State banking structure. For these reasons, he would be inclined to deny the application.

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Other members of the Board having indicated that they concurred in the position taken by Governors Mills and Robertson, it was agreed to ascertain whether the Federal Reserve Bank of New York wished to submit any additional information before a final decision was reached.

Applicability of section 32 of Banking Act of 1933 (Item No. 3).

A memorandum dated March 2, 1961, from the Legal Division had been distributed in connection with a question presented by the Federal Reserve Bank of Chicago as to whether section 32 of the Banking Act of 1933 would be applicable to the service of Mr. Aaron Miller as a director of the Greater Iowa Corporation and of the Midway National Bank of Cedar Falls, Cedar Falls, Iowa. The memorandum pointed out that it appeared from the prospectus that the Corporation would be a holding company that would acquire or organize, as proceeds from the sale of stock became available, subsidiaries to develop a wide variety of "opportunities for profit". The subsidiaries might operate in the fields of manufacturing, processing, foreign trade, investment, insurance, finance, banking, leasing of heavy equipment, real estate development, "and other related fields". The memorandum concluded that, in line with the Board's ruling published in the Federal Reserve Bulletin for February 1961, which clarified a ruling published in the Bulletin for April 1960, section 32 would be applicable to Mr. Miller's dual service as a director of the corporation and of a member bank. A draft of letter to the Reserve Bank was attached to the memorandum.

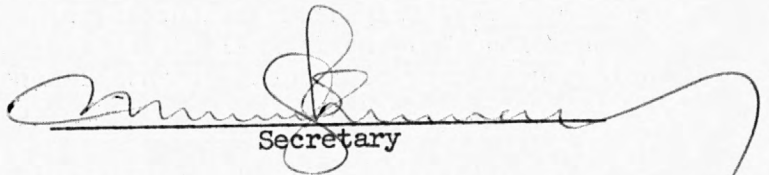
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After a brief discussion during which Mr. Hackley suggested certain clarifying changes in wording, the letter was approved unanimously. A copy of the letter, as sent, is attached as Item No. 3.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum from the Division of Bank Operations dated March 3, 1961, Governor Shepardson approved on behalf of the Board on March 7, 1961, the transfer of Judith Sherbine from the position of Clerk-Stenographer in the Division of Personnel Administration to the position of Clerk-Stenographer in the Division of Bank Operations, with no change in her basic annual salary at the rate of \$4,460, effective the date she assumes her new duties.



Secretary

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

Item No. 1
3/8/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 8, 1961.

Chase International Investment Corporation,
18 Pine Street,
New York 5, New York.

Gentlemen:

In accordance with the request contained in your letter of December 16, 1960, transmitted through the Federal Reserve Bank of New York, and on the basis of the information furnished, the Board of Governors grants its consent for Chase International Investment Corporation ("CIIC") to exercise all rights to which CIIC would become entitled as the holder of warrants for ordinary shares of Eregli Demir ve Celik Fabrikalari Turk Anonim Sirketi ("Eregli"), a Turkish corporation, acquired through the purchase of Class A Debentures of Eregli in the amount of \$2,000,000, within the period contemplated thereby; provided that any purchase and holding of shares of Eregli, together with any other stock held, shall not exceed the limitations in conditions numbered (6) and (7) of the general consent granted to your Corporation on January 20, 1960, as follows:

- "(6) The aggregate equity investment (at cost) in foreign corporations engaged in the same business (i.e. the manufacture or mining of similar products or the carrying on of similar activities by similar means) shall not exceed 25 per cent of CIIC's capital and surplus.
- "(7) The aggregate investment in all foreign corporations doing business in any one country, colony, possession or dependency shall not exceed 25 per cent of CIIC's capital and surplus."

The Board's consent is granted upon condition that CIIC shall dispose of any holdings of stock of Eregli, as promptly as practicable, in the event that Eregli should at any time (1) engage in issuing, underwriting, selling or distributing securities in the United States; (2) engage in the general business of buying or selling goods, wares, merchandise, or commodities in the United States or transact any

Chase International Investment Corporation -2-

business in the United States except such as is incidental to its international or foreign business; or (3) conduct its operations in a manner which, in the judgment of the Board of Governors of the Federal Reserve System, is inconsistent with Section 25(a) of the Federal Reserve Act or regulations thereunder.

It is requested that you furnish the Board of Governors through the Federal Reserve Bank of New York, pertinent details regarding any stock investment made under this authorization, as outlined in condition numbered (1) of the general consent.

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. 2
3/8/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



March 8, 1961

Morgan Guaranty International
Finance Corporation,
23 Wall Street,
New York 8, New York.

Gentlemen:

In accordance with the request and on the basis of the information furnished with your letter of December 21, 1960, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants its consent for Morgan Guaranty International Finance Corporation to purchase and hold 120,000 shares, par value Argentine pesos 100 each, of the capital stock of Roberts, S. A. de Finanzas, Buenos Aires, Argentina, at a cost of approximately US\$145,455, provided such stock is acquired within one year from the date of this letter.

The Board's consent is granted upon condition that your Corporation shall dispose of its holdings of stock of the Argentine company, as promptly as practicable, in the event that the Argentine company should at any time (1) engage in issuing, underwriting, selling or distributing securities in the United States; (2) engage in the general business of buying or selling goods, wares, merchandise, or commodities in the United States or transact any business in the United States except such as is incidental to its international or foreign business; or (3) conduct its operations in a manner which, in the judgment of the Board of Governors of the Federal Reserve System, is inconsistent with Section 25(a) of the Federal Reserve Act or regulations thereunder.

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. 3
3/8/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



March 8, 1961

Mr. Paul C. Hodge, Vice President,
General Counsel and Secretary,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Hodge:

Receipt is acknowledged of your letter of February 24, 1961, and enclosures, relating to the question whether section 32 of the Banking Act of 1933 would prevent a director of a member bank from serving as a director of "The Greater Iowa Corporation".

The information contained in the prospectus and other papers indicates that the corporation will be a holding company which will organize or acquire subsidiaries engaging in a wide variety of activities and that the company, which now has a paid-in capital of \$67,000, proposes to offer additional shares at a price of \$10 million, with the proviso that if \$3 million worth is not sold by March 1, 1962, the amounts subscribed will be refunded pro rata to the stockholders.

The Board is in agreement with your conclusion that section 32 will be applicable. Although the ruling published in the Federal Reserve Bulletin for 1960 at page 371, as clarified by the ruling published in the Bulletin for 1961 at page 156, related to closed-end investment companies, the rationale of that ruling is applicable to corporations generally.

The Board is also in agreement with the view that service of a director of a member bank as a member of the "Associate Board of Advisors" of the corporation would not violate section 32 since it appears that the members of this board will not be officers, directors, or employees of the corporation. The statement accompanying the offering of stock says: "The Board of Directors will consult with members of the Associate Board of Advisors on all matters where their specialized knowledge and experience is deemed important in connection with particular problems."

Very truly yours,

(Signed) Merritt Sherman.

Merritt Sherman,
Secretary.