

Minutes for March 27, 1961


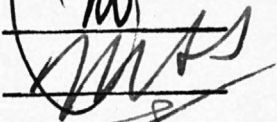
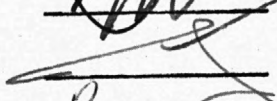
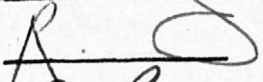
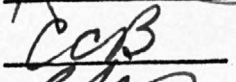
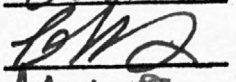
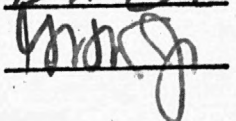
To: Members of the Board

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	<u></u>
Gov. Szymczak	<u></u>
Gov. Mills	<u></u>
Gov. Robertson	<u></u>
Gov. Balderston	<u></u>
Gov. Shepardson	<u></u>
Gov. King	<u></u>

Minutes of the Board of Governors of the Federal Reserve System
on Monday, March 27, 1961. 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. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Adviser to the Board
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Fauver, Assistant to the Board
Mr. Knipe, Consultant to the Chairman
Mr. Landry, Assistant to the Secretary
Mr. Petersen, Special Assistant, Office of
the Secretary

Messrs. Furth, Katz, Irvine, Wood, Maroni, and
Reynolds of the Division of International
Finance

Messrs. Noyes, Garfield, Holland, Koch, Robinson,
Brill, Dembitz, Williams, Eckert, Gehman,
Solomon, Goldstein, Trueblood, Wernick, and
Wood, and Miss Dingle of the Division of
Research and Statistics

Economic review. The Divisions of International Finance and
Research and Statistics presented a review of economic and financial
developments, following which all members of the staff except Messrs.
Sherman, Kenyon, Thomas, Fauver, Noyes, and Landry withdrew and the
following entered the room:

Mr. Molony, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel

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Mr. Hooff, Assistant General Counsel
Mr. Leavitt, Assistant Director, Division
of Examinations
Mr. Young, Assistant Counsel
Mr. Axilrod, Economist, Division of Research
and Statistics

Report on H. R. 2899 and 2900. There had been distributed under date of March 24, 1961, a memorandum from the Legal Division relating to a request dated March 6, 1961, from the House Committee on Ways and Means for a report on H. R. 2899 and H. R. 2900, identical bills relating to taxation of savings and loan associations and mutual savings banks. An attached memorandum from Mr. Axilrod of the Division of Research and Statistics discussed certain problems involved in the proposed legislation, including the tax position of savings and loan associations and mutual savings banks as compared with that of commercial banks. Submitted with the memoranda was a draft of reply to Chairman Mills of the Committee on Ways and Means.

The proposed report to the Ways and Means Committee would note that the amount of tax-free reserves the financial institutions in question should be permitted to accumulate appeared to involve a number of highly technical considerations, such as their loss experience and the character of their assets, and that the bills also raised the question whether the amount allowed could best be determined administratively or by legislation. The report would state that because the foregoing

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considerations involved matters about which the Board had no special knowledge, and since amendments to the Internal Revenue Code were primarily within the competence of the Treasury, the Board had no comments to offer with respect to the bills.

Governor Shepardson questioned the advisability of reporting simply that the Board had no comment. If there was a tax inequity, he felt it would be in order to mention that in the letter, although he was not sure whether an approach to the problem through the tax deductible bad debt reserves of the financial institutions in question was the most appropriate way of dealing with the problem.

Governor Robertson remarked that he believed the Board should not take a hands-off attitude on the question. He suggested that the Board's report to the Committee might appropriately indicate that if it was desirable to have the Treasury make determinations for the commercial banks with respect to the amount of permissible bad debt reserves, it would seem desirable that the Treasury also be given such authority in the case of savings and loan associations and mutual savings banks.

Governor Mills said he was disturbed by the thought that almost anything the Board might say in this regard would leave it open to a charge of siding with the commercial banks on a proposal that would work to the disadvantage of the savings and loan associations and mutual

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savings banks. The memorandum from Mr. Axilrod brought out forcefully the effect of the existing legislation, but the savings and loan associations were adamant in their arguments against a change. It was a difficult problem, and he did not know how the Board could say anything of a positive nature without opening itself to charges such as he had mentioned.

Following further discussion, it was agreed that the draft report to the House Ways and Means Committee would be revised to incorporate language along the lines suggested by Governor Robertson in order that the Board might consider whether it wished to send a reply to such effect.

Messrs. Thomas, Molony, Noyes, and Axilrod then withdrew from the meeting.

Application of Marine Midland Trust Company of Southern New York (Item No. 1). There had been distributed to the members of the Board copies of a memorandum from the Division of Examinations dated March 23, 1961, transmitting further comments from the New York Reserve Bank with respect to an application by Marine Midland Trust Company of Southern New York, Elmira, New York, for permission to merge with First National Bank and Trust Company of Ithaca, Ithaca, New York. The additional comments of the Reserve Bank had been prepared following

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an indication at the meeting on March 8, 1961, that the Board was inclined to disapprove the application, contrary to the recommendation of the Reserve Bank. In its letter of March 21, 1961, transmitting its further comments on the application, the New York Reserve Bank stated that it could not add materially to the facts already presented and expressed the view that essentially the problem involved weighing of the significance of those facts in the light of the laws applicable to bank mergers and the System's supervisory responsibility for interpreting such laws. The accompanying memorandum presented in some detail the reasons why the Reserve Bank considered the proposed merger worthy of approval on the basis of its "understanding of the way in which banks compete, and against the background of a changing, or developing banking structure".

Mr. Solomon commented on the additional material submitted by the New York Reserve Bank, noting, as had the Bank, that the facts of the case were not in dispute. Instead, it was a question of the interpretation of those facts, and in that respect the Bank's memorandum may have pointed up some of the factors involved more effectively than the material previously made available to the Board.

Mr. Solomon said, in reply to a question from Chairman Martin, that the Division of Examinations, which had recommended approval of the

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application in the first instance, continued of that view. The views of the New York Bank favored approval, so they would hardly have influenced the Division of Examinations to change its original position. However, while the Division was inclined to think that a favorable decision could be justified in the circumstances of this particular case, it recognized the arguments against approval and no one in the Division regarded this as a black-and-white case.

Governor Balderston inquired if the sample of independent banks in six New York State communities referred to in the New York Bank's review of the application was representative. The sample in question purported to show that independent banks had not to any material degree been adversely affected by Marine Midland competition in their respective communities and that, in fact, their growth had exceeded that of the Marine Midland subsidiaries in most cases.

In reply, Mr. Leavitt said that the sample was not widely representative and that a fuller survey probably would indicate that in certain areas the Marine Midland banks had grown more rapidly than independent banks in the same communities.

Governor Mills stated that although this was a bank merger case, it also involved the question whether the transaction, if approved, would result in the expansion of a bank holding company contrary to the public interest. In his opinion, it would. Further, looking only at the bank

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merger aspects of the matter, it was also his belief that approval would be contrary to the public interest by permitting the expansion of the applicant bank to such a size that it would have a competitive advantage over other banking institutions in the Seventh Banking District of the State of New York. It had been asserted that studies indicated that independent banks could thrive in direct competition with offices of large banking organizations. However, he felt this was irrelevant to the statutory responsibilities vested in the Board by the Bank Merger and Bank Holding Company Acts.

It was his opinion, Governor Mills said, that the New York Reserve Bank's additional comments on the application by Marine Midland emphasized too strongly the factor of convenience. Those charged with responsibility under the Federal laws must take into account the factor of competition and the disadvantages worked on the smaller banks if larger banks should be permitted to expand too greatly in size. In that light, he considered it fortunate that the New York memorandum had been made available, because he felt that future recommendations would have to be studied in the light of the bias that appeared to him to be reflected in the memorandum.

Governor Robertson commented that the New York memorandum, in the sense of presenting the point of view of the Bank, was a capable job. However, he felt that to a large extent the case of the Bank was disproved

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by the considerable premiums that large institutions were forced to offer in attempting to acquire smaller banks.

Following further discussion, the application was denied by unanimous vote. A copy of the letter sent to Marine Midland Trust Company of Southern New York pursuant to this decision is attached as Item No. 1.

Messrs. Fauver, Hooff, and Leavitt withdrew from the meeting at this point.

Report on H. R. 1211, H. R. 2799, and H. R. 2802 (Item No. 2).

At the meeting on March 20, 1961, the Board gave preliminary consideration to a draft of letter to Chairman Harris of the House Committee on Interstate and Foreign Commerce reporting on H. R. 1211, H. R. 2799, and H. R. 2802, all relating to disclosure by corporate officers and others of certain personal financial dealings. In view of certain questions that were raised at the time, action on the proposed report was deferred.

These questions having been studied further, the proposed letter was again presented for consideration and, after a brief discussion, was approved unanimously. A copy is attached as Item No. 2.

Messrs. Hexter and Young (Assistant Counsel) then withdrew from the meeting.

Bank defalcations. Governor Robertson commented that because of recent defalcations in certain smaller banks, there had been substantial

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adverse publicity. Consequently, it seemed desirable for the bank supervisory agencies to do whatever was possible to offset this publicity, and also to urge the commercial banks to take necessary steps to guard against such defalcations in the future. In this connection, Governor Robertson reported that the American Bankers Association was preparing to issue a pamphlet on direct verification and that it was a creditable job. It had been suggested that the bank supervisory agencies, Federal and State, could help if it could be arranged to insert in the pamphlet a letter of commendation signed by the Chairman of the Board of Governors, the Comptroller of the Currency, the Chairman of the Federal Deposit Insurance Corporation, and the Chairman of the National Association of Supervisors of State Banks.

Governor Robertson then read the proposed letter of commendation, and it was agreed that it would be appropriate for Chairman Martin to sign the letter on behalf of the Board.

Governor Robertson also recalled that at the meeting on March 15, 1961, the Board had approved a letter to all Federal Reserve Banks requesting that Reserve Bank examiners, in the course of examinations of State member banks, discuss with management the availability of the excess employee dishonesty bond ("umbrella" bond) in cases where such insurance was not carried, and include comment in the examination report. At the same time, the Board had also authorized the staff to enter into

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discussion with the other Federal bank supervisory agencies and the National Association of Supervisors of State Banks regarding the issuance of a proposed joint statement urging that bank directors protect the interests of depositors and shareholders through maintenance of adequate fidelity coverage and through use of adequate audit procedures and internal controls. However, question had been raised within the Federal Deposit Insurance Corporation as to whether the better approach would not be through the examiners of the respective supervisory agencies. In the circumstances, Governor Robertson felt that it was advisable not to try to push the issuance of the proposed joint statement and instead to think in terms of possible alternatives.

In a brief discussion that followed, Mr. Solomon reported receipt just before this meeting of a telephone call from the Office of the Comptroller of the Currency which indicated that the Comptroller was quite favorable to the proposed joint statement and might discuss the matter with the Chairman of the Federal Deposit Insurance Corporation.

The meeting then adjourned.

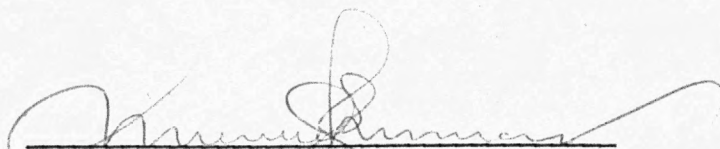
Secretary's Note: Governor Shepardson today
approved on behalf of the Board the following
items:

Item No. 3) Letter to the Federal Reserve Bank of San Francisco (attached
examiner.) approving the appointment of Richard H. Wyatt as assistant

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Letter to Mr. Clay, President of the Federal Reserve Bank of Kansas City, advising that G. Howland Chase, Assistant General Counsel, has been designated as the member of the Board's legal staff to serve as an associate member of an ad hoc Committee of Counsel appointed by Mr. Clay in his capacity as Chairman of the Committee on Legislation of the Presidents' Conference to undertake appropriate study of the general question of application of State unemployment compensation statutes to the Federal Reserve Banks.



Secretary

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

Item No. 1
3/27/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 27, 1961.

Board of Directors,
Marine Midland Trust Company
of Southern New York,
Elmira, New York.

Gentlemen:

Reference is made to your request submitted through the Federal Reserve Bank of New York for consent under the provisions of section 18(c) of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1828), to merge with First National Bank and Trust Company of Ithaca, Ithaca, New York, and for approval to operate branches at the present locations of the offices of the First National Bank and Trust Company of Ithaca.

It apparently is contemplated that the continuing bank would somewhat increase the range of banking services presently offered by First National Bank and Trust Company of Ithaca, but it does not appear that these or other benefits would be of major importance. On the other hand, the proposed merger, which would further expand the banking offices and resources of Marine Midland Trust Company of Southern New York and the Marine Midland group of banks, would eliminate existing and potential competition between the two banks, and would inject into the banking situation in Ithaca a relatively large institution that could materially impair the future competitive capacity of the remaining bank in Ithaca and other nearby banks.

Section 18(c) of the Federal Deposit Insurance Act provides that the Board of Governors shall not approve a proposed merger unless, after considering all the factors stated in the section, the Board finds the transaction to be in the public interest. For the reasons stated above, the Board does not find that the proposed merger would be in the public interest, and accordingly the application is denied.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 2
3/27/61

OFFICE OF THE CHAIRMAN

March 27, 1961

The Honorable Oren Harris, Chairman,
Committee on Interstate and Foreign Commerce,
United States House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

Receipt is acknowledged of your three letters dated February 9, 1961, enclosing respectively copies of H.R. 1211, H.R. 2799, and H.R. 2802, and requesting reports thereon. These bills have similar purposes, in that they would require disclosure of detailed information by specified individuals, including corporate directors and officers, of certain personal financial dealings.

H.R. 1211 would amend section 16 of the Securities Exchange Act of 1934, as amended, and would apply to holders of certain equity securities. H.R. 2799 would amend section 36 of the Investment Company Act of 1940, as amended, and would apply to directors, officers, agents and employees of registered investment companies. H.R. 2802 would apply to officers and directors, as well as to controlling stockholders, of any "publicly held corporation".

It appears that none of the bills relate to any matter which has a direct or material bearing upon the responsibilities of the Board of Governors of the Federal Reserve System, and the Board has no comment to offer with respect to them.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

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

Item No. 3
3/27/61



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 27, 1961

Mr. Eliot J. Swan, President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Swan:

In accordance with the request contained in your letter of March 20, 1961, the Board approves the appointment of Richard H. Wyatt as an assistant examiner for the Federal Reserve Bank of San Francisco. Please advise us of the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.