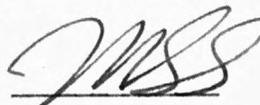


The attached minutes of the meeting of the Board of Governors of the Federal Reserve System on March 31, 1961, which you have previously initialed, have been amended at the request of Governor Mills to revise the third complete paragraph on page 4.

If you approve these minutes as amended, please initial below.

Governor Szymczak

A handwritten signature in dark ink, appearing to be 'MS', written over a horizontal line.

Minutes for March 31, 1961

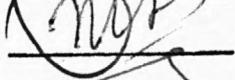
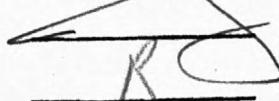
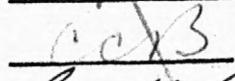
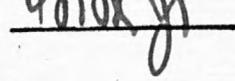
To: Members of the Board

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	

Minutes of the Board of Governors of the Federal Reserve System
on Friday, March 31, 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. Shepardson

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Adviser to the Board
Mr. Shay, Legislative Counsel
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Noyes, Director, Division of Research and
Statistics
Mr. Holland, Adviser, Division of Research and
Statistics
Mr. Koch, Adviser, Division of Research and
Statistics
Mr. Landry, Assistant to the Secretary
Mr. Yager, Economist, Division of Research
and Statistics

Mr. Stone, Manager, Securities Department,
Federal Reserve Bank of New York

Money market report. Mr. Holland reported on recent developments
in the Government securities market and Mr. Thomas reviewed banking
developments.

Following these reports all members of the staff except Messrs.
Sherman, Kenyon, and Landry withdrew and the following entered the room:

Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Thompson, Supervisory Review Examiner,
Division of Examinations
Mr. Smith, Legal Assistant

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Discount rates. The establishment without change by the Federal Reserve Banks of Chicago and San Francisco on March 30, 1961, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Application to organize a national bank at Irving, Texas (Item No. 1). There had been circulated to the Board a memorandum from the Division of Examinations dated March 17, 1961, proposing a favorable recommendation to the Comptroller of the Currency with respect to an application to organize a national bank at Irving, Texas. The Federal Reserve Bank of Dallas had suggested an unfavorable recommendation.

Mr. Solomon commented that this case was quite typical of some arising from time to time, and that the Board's guidance would be appreciated by the Division of Examinations. In this instance the proposed capital structure was adequate, management was regarded as satisfactory, and earnings prospects, although not outstanding, were reasonably satisfactory. The proposed bank would be located in a community on the outskirts of Dallas, Texas, where two banks were already located, one having around \$14 million of deposits and the other about \$6 million. The bank would have strong financial backing, since it would be closely associated, although not legally affiliated with, the "Republic National Bank Group." In considering the application, the Division of Examinations had taken into account the fact that the

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two existing banks in the community were independent banks, not associated with any group. If the proposed new bank were to be independent, it might have rough sledding. However, as a member of the "Republic National Group" it expected to be in the black within two years. Further, there was no indication that the two existing banks would be injured materially by the establishment of the new bank. Therefore, the Division of Examinations had suggested that a favorable recommendation be made to the Comptroller of the Currency in this case.

Governor Mills stated that his conclusions were the same as those of the Division of Examinations. Consequently, he would recommend favorably on the application.

Governor Robertson said that he would be opposed to a favorable recommendation in this case on the ground that the proposed new institution would be part of the Republic National Group, thereby enabling Republic to expand its field of activities through the establishment of what was in effect a branch. He noted that this method of expansion also was occurring in Minnesota, where large banking organizations were providing funds to friendly parties to start new institutions. Although this was a rather cloudy case, the need for the proposed bank did not appear to be so great as to justify going against the unfavorable recommendation of the Federal Reserve Bank of Dallas, which was on the ground and was familiar with the method of expansion being followed by the large banks as an alternative to the establishment of branches, which are not permitted under the laws of Texas.

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Governor Shepardson indicated that he would take the same position as Governor Robertson. He said that the problem of expansion in the manner here contemplated had been discussed with him recently by President Irons, who indicated that the Reserve Bank was concerned about the way in which the practice had been spreading, particularly in the Dallas and Houston areas. He felt it would be advisable to take cognizance of the Reserve Bank's views, and he would therefore be inclined to support the Reserve Bank's recommendation.

In the discussion that ensued, Mr. Hexter pointed out that the Administrative Procedure Act requires that a Government agency state the reasons for denial of an application submitted to it. It was not entirely clear to him that it would be permissible and defensible to deny an application for a bank charter on the basis of the source of the capital funds.

Governor Mills expressed agreement with Mr. Hexter. He added that he felt the problem referred to, as regards bank financing of the principal shareholders and organizers of a new bank, was a credit matter to be resolved in the area of bank examination rather than as a question regarding the source per se of bank capital funds. In considering an application for a bank charter where all other factors are disposed of favorably, capital adequacy rather than the source of capital funds was the primary factor to be scrutinized.

Governor Robertson agreed that a bank supervisory problem was involved. However, he felt that an unfavorable recommendation on the application under consideration could be justified on the ground of lack of need for additional banking facilities in the community concerned.

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The two existing banks had deposits of only about \$14 million and \$6 million, respectively, and from the report of investigation the Dallas Reserve Bank evidently felt there was no real need for a third bank.

On the matter of the weight that should be given to the question of need, Mr. Hexter said he had come to the view that whereas lack of adequate capital, absence of proper management, or lack of prospects for adequate earnings would constitute grounds for turning down an application, as a legal matter an absence of real need for additional banking facilities would not offer a justifiable basis for denial. If an application offered good management, adequate capital, and reasonably satisfactory earnings prospects, he thought it quite possible that a court would say that a Governmental authority was acting in an arbitrary manner if it turned down the application merely because the community in question did not need another bank.

Governor Robertson replied by referring to the inclusion in the statutes of a reference to needs and convenience at a time when there was serious concern about overbanking. Prior to that time, he noted, this factor had been given consideration in bank supervisory practice for many years. Clearly, it would not be advisable to have so many banks as to endanger the banking system as such. Therefore, it seemed appropriate to study, in any given situation, whether the number of banks was such as to care adequately for the needs of the community. Where there was a community with only one source of banking services, he always leaned

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strongly on the side of providing competition. However, as the number of banks in the community became larger, he looked at the situation more and more carefully to determine whether additional banking facilities were needed. In this particular instance the community was growing, but it was a suburban community on the outskirts of Dallas and there were two banks already in existence. The current application appeared to involve essentially the desire of a large Dallas banking organization to expand the scope of its activities, and in the circumstances he would give considerable weight to the degree of need for the proposed bank. Since there did not appear to be any indication of real need, he would recommend adversely.

Further discussion included an expression of opinion by Mr. Hackley that the mere absence of an appearance of need perhaps was not a negative factor except to the extent that it might affect the prospect of profitable operations. If it appeared that a proposed new bank could not operate profitably, then an absence of need would be a definite consideration.

Mr. Solomon indicated that the Division of Examinations, after giving considerable thought to the matter, had come more and more to a view along the lines indicated by Messrs. Hexter and Hackley. If earnings prospects were reasonably satisfactory and the existence of the new bank would not impair the earnings of the existing banks of the area unreasonably, the Division felt that probably this was a sufficient

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showing from the standpoint of convenience and needs in a case where an independent bank proposed to go into an area where other independent banks were located. However, it seemed appropriate to take into consideration also the relationships and "affiliations" of the proposed new bank, and for that matter the existing institutions. For example, if the existing banks were associated with a particular group, it would seem that the convenience and needs of the community might not be served by the establishment of another institution associated with the same interests. Thus, if the situation in Irving were one where a group bank was coming into an area where banks associated with the same group already were in existence, it would not seem that the needs and convenience of the community would be well served. Here, however, the new bank would be the only institution in the community that was associated with any group of banks.

Following additional discussion, Governors Szymczak and Balderston indicated that they would be inclined to recommend favorably on the application, the latter adding that in his opinion the establishment of a third bank in the community would not represent overbanking.

Governor Robertson brought out, in relation to Governor Balderston's comment, that he thought it was questionable whether overbanking would be involved. The case, however, was not so clear as, in his judgment, to warrant overriding the Federal Reserve Bank. Therefore, he would resolve the doubt on the side of supporting the Reserve Bank.

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Since it appeared that a majority of the Board would be inclined to make a favorable recommendation to the Comptroller in this instance, question was raised whether the Board should follow the usual procedure of checking with the Dallas Reserve Bank to ascertain whether the Bank wished to present any additional information or views. In this connection, reference was made to discussion of the matter by members of the Board's staff with Vice President Pondrom and Assistant Vice President Sullivan on the occasion of the recent Examiners' Conference. However, in view of the rather unusual factors involved in this case, it was decided that a further check should be made with the Reserve Bank, with the understanding that if it developed that the Bank did not desire to present any further comments, the proposed letter recommending favorably on the application would be sent to the Comptroller of the Currency. Governors Robertson and Shepardson dissented from the sending of such a letter for the reasons they had stated.

Secretary's Note: In a subsequent telephone conversation, the Federal Reserve Bank of Dallas indicated that it had no further comment on the application. Accordingly, the proposed letter, a copy of which is attached as Item No. 1, was transmitted to the Comptroller of the Currency.

Hearing on application of New York Holding Corporation. Mr.

Hackley reported that when Mr. O'Connell was in New York yesterday making preparations for the hearing ordered by the Board on an application by New York Holding Corporation, White Plains, New York, to become a bank

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holding company by acquiring the shares of Bankers Trust Company, New York City, and The County Trust Company, White Plains, the Reserve Bank had handed him a letter addressed to the Secretary of the Board requesting the right to submit a statement at the hearing. However, it had been understood that the letter would not be filed, and transmitted to the Hearing Examiner for decision, if the Board had a strong objection. Mr. Hackley noted that there was a time element involved in the request, since today was the deadline date for so filing. He recalled that the New York Reserve Bank had, with the Board's permission, presented testimony in the hearing on the application of First New York Corporation to become a bank holding company, which application was denied by the Board on July 10, 1958.

In discussion of the matter, it was pointed out that the Board, in considering the question of testimony by the New York Reserve Bank in the First New York hearing, had indicated specifically that it was proceeding on an experimental basis and was not establishing any rule of general application.

Question was raised regarding the possibility that the New York Bank might submit a statement for the Board's consideration outside of the hearing record, and the comments by the staff were to the effect that the Board would have to decide the case on the basis of the factual information included in the hearing record. Thus, if the Reserve Bank were to submit a statement containing additional information or expressing

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opinions based on material not presented at the hearing, such statement should be part of the record of the case and its contents made available to the applicant. On the other hand, if the Reserve Bank wished to submit an analysis of the record and comments based on such analysis, such a document could be considered by the Board along with such analysis and views as might be submitted by its own staff, and the document would not have to be made available to other parties.

Further comments dealt with the probable difficulty of restricting a statement for the hearing record to a presentation of factual material, as distinguished from opinion, and to the rather awkward situation that would arise if a Reserve Bank expressed a position in the hearing record and the Board then reached a different decision.

At the conclusion of the discussion, it was the unanimous view of the Board that it would be undesirable for the New York Reserve Bank to submit a statement for the hearing record on the application of the New York Holding Corporation. In the circumstances, it was understood that the letter in Mr. O'Connell's possession would not be filed with the Secretary of the Board and transmitted to the Hearing Examiner. It was agreed that Vice Chairman Balderston would express to President Hayes by telephone the position of the Board and the underlying reasons.

Procedure under bank merger legislation. Mr. Hackley reported that he had been advised by Mr. Robert Knight, General Counsel of the Treasury Department, that the Secretary of the Treasury, the Comptroller

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of the Currency, and the Attorney General had agreed to a procedure designed to avoid "proliferation" of suits under the antitrust laws growing out of bank mergers approved by the Comptroller. The procedure would be, Mr. Hackley understood, that in any case in which Justice rendered an adverse report on the competitive factor and in which the Comptroller believed that he should approve the merger, the latter would so inform the Department. If the Department, after conferring with the Comptroller, indicated that Justice would "feel obliged" to bring suit to enjoin the merger under the antitrust laws, the Comptroller would defer action on the merger until a decision "resolving the legal issues" had been reached in at least one of the pending court cases. This agreement reportedly would continue in effect only as long as the present Secretary, Comptroller, and Attorney General occupied their respective positions; and it was understood that each of the present occupants would be "free to review this understanding by not later than the end of this September in the light of the circumstances then obtaining."

Mr. Hackley noted that he had suggested to Mr. Knight that deferment of action on merger applications might raise a question under the Administrative Procedure Act, section 10(e) of which provides that upon judicial review of agency action the reviewing court shall "compel agency action unlawfully withheld or unreasonably delayed."

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Mr. Hackley also indicated that he was preparing a memorandum on the reported agreement for the Board's information.

The meeting then adjourned.

Secretary's Notes: Pursuant to the decision reached by the Board on March 17, 1961, and in reply to a subsequent telephone request from the Department of Justice, there were forwarded to the Department with a letter dated March 28, 1961, photostatic copies of the reports of condition made to the Board by the Bank of Commerce and the Security Trust Company, both of Lexington, Kentucky, for the period December 31, 1955, through October 3, 1960. As in the case of the reports of condition as of December 31, 1960, which had been forwarded to the Department on March 17, the additional reports were transmitted with the expressed understanding that the Department would not disclose any of the unpublished information appearing on the reverse side of the reports without prior notice to the Board.

Pursuant to the decision reached by the Board at the meeting on March 22, 1961, and in reply to a subsequent telephone request from the Department of Justice, there were forwarded to the Department with a letter dated March 30, 1961, photostatic copies of reports of earnings and dividends made to the Board by the Bank of Commerce and the Security Trust Company, both of Lexington, Kentucky, for the calendar years 1956 through 1960. The transmittal letter pointed out that the reports contained unpublished information and that they were being furnished with the understanding that the Department would not disclose any of the reports without prior notice to the Board.

Governor Shepardson today approved on behalf of the Board the following items:

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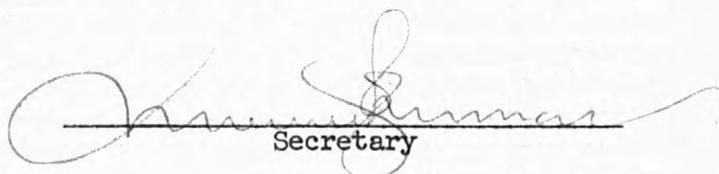
Memorandum from the Division of Administrative Services recommending acceptance of the resignation of Daisy E. O'Connor, Charwoman in that Division, effective March 29, 1961.

Letter to the Chairman of the Committee on Emergency Operations of the Conference of Presidents of the Federal Reserve Banks advising that the following persons on the Board's staff would continue to serve as associate members of the subcommittees indicated:

Innis D. Harris	Subcommittee on Emergency Operations
David B. Hexter	Subcommittee of Counsel on Emergency Operations

Letter to the Federal Reserve Bank of Richmond (attached Item No. 2) approving the designation of Arthur N. O'Brien, Jr., as special assistant examiner.

Letter to the Federal Reserve Bank of Chicago (attached Item No. 3) approving the designation of five persons as special assistant examiners.


Secretary

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

Item No. 1
3/31/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 31, 1961



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

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

Dear Mr. Comptroller:

Reference is made to a letter from your office dated July 6, 1960, enclosing copies of an application to organize a national bank at Irving, Texas, and requesting a recommendation as to whether or not the application should be approved.

Information contained in the report of investigation of the application by an examiner for the Federal Reserve Bank of Dallas indicates that the proposed capital structure of the bank is adequate, that prospects for profitable operations are favorable, and that the general character of management is regarded as satisfactory. While there may be no urgent demand for additional banking facilities in this area, there appears to be sufficient business to provide profitable operations within a relatively short period. It is noted that future growth of the community is expected to the north and northwest, opposite the proposed location of the bank, and that development of the immediate area to be served is said to be limited to some extent by natural barriers. The Board of Governors recommends favorable consideration of the application.

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

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 2
3/31/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 31, 1961

Mr. John L. Nosker, Vice President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Nosker:

In accordance with the request contained in your letter of March 28, 1961, the Board approves the designation of Arthur N. O'Brien, Jr., as a special assistant examiner for the Federal Reserve Bank of Richmond for the purpose of participating in examinations of State member banks except The Bank of Virginia, Richmond, Virginia, and Southern Bank and Trust Company, Richmond, Virginia.

The authorization heretofore given your Bank to designate Mr. O'Brien as a special assistant examiner is hereby canceled.

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
3/31/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 31, 1961



Mr. Hugh J. Helmer, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Helmer:

In accordance with the request contained in your letter of March 28, 1961, the Board approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of Chicago for the purpose of participating in examinations of State member banks:

William C. Conrad	Gerald T. Moore
Robert J. King	Robert W. Cook
Richard L. Simms, Jr.	

Appropriate notations have been made in our records of the names to be deleted from the list of special assistant examiners.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.