

Minutes of the Board of Governors of the Federal Reserve System

on Tuesday, April 25, 1961. The Board met in the Board Room at 10:00 a.m.

PRESENT: 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. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel
Administration
Mr. Kelleher, Director, Division of Administrative
Services
Mr. Harris, Coordinator, Office of Defense
Planning
Mr. Hexter, Assistant General Counsel
Mr. Furth, Adviser, Division of International
Finance
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Landry, Assistant to the Secretary

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on April 24, 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.

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

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	<u>Item No.</u>
Letter to Rhode Island Hospital Trust Company, Providence, Rhode Island, approving the establishment of a branch at 11 Kilvert Street, Warwick.	1
Letter to The Chase Manhattan Bank, New York, New York, approving the establishment of a branch at 156-02 Cross Bay Boulevard, Howard Beach.	2
Letter to Philadelphia International Investment Corporation, Philadelphia, Pennsylvania, granting the Board's general consent to purchase and hold stock in generally designated types of corporations subject to specified conditions.	3
Letter to Bank of Smithfield, Smithfield, Virginia, approving an investment in bank premises.	4
Letter to Mountain Trust Bank, Roanoke, Virginia, approving the establishment of a branch at 4920 Williamson Road.	5
Letter to the Federal Reserve Bank of Chicago approving the payment of salary to an officer at the rate fixed by the Bank's Board of Directors.	6

With reference to Item No. 3, Governor Mills noted that although he would not oppose the application by Philadelphia International Investment Corporation, because approval would be consistent with actions taken previously by the Board on similar applications, he had serious reservations concerning the general consent procedure.

Governor Robertson indicated that his views were similar to those of Governor Mills.

Mr. Goodman withdrew from the meeting at this point.

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Application by Southern Arizona Bank and Trust Company. A

memorandum dated March 27, 1961, from the Division of Examinations had been circulated in connection with an application by Southern Arizona Bank and Trust Company, Tucson, Arizona, a Western Bancorporation subsidiary, for permission to establish a branch in Phoenix. When the file was in circulation, Governor Mills questioned the recommendation made in the Division's memorandum, which recommendation, like that of the Federal Reserve Bank of Dallas, was favorable.

The Division memorandum pointed out that Western Bancorporation (formerly Firstamerica Corporation) was already represented in Phoenix by another subsidiary, The First National Bank of Arizona. Except for three small independent banks, competition in Phoenix was supplied by the Valley National Bank and its associated institution, The Arizona Bank (formerly the Bank of Douglas). The latter two banks, together, had 62 per cent of the deposits of individuals, partnerships, and corporations in Maricopa County and 57 per cent of the banking offices, as compared with 35 per cent and 33 per cent, respectively, for The First National Bank of Arizona. Southern Arizona Bank and Trust Company heretofore had confined its operations to Tucson and an adjoining county. Total deposits of the two Western Bancorporation subsidiaries (First National and Southern Arizona) were substantially less than the combined deposits of Valley National and The Arizona Bank.

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Governor Mills stated that in his view a serious question was raised by the application of Southern Arizona Bank and Trust Company which, as a unit of the Western Bancorporation group of banks, was seeking to extend its facilities into Phoenix, where another unit of the same system, The First National Bank of Arizona, was already in operation. In view of the problem with respect to the concentration of banking resources in Arizona, he could see no logic in permitting Southern Arizona Bank and Trust Company to enter an area where another subsidiary of the same holding company had a substantial number of offices. Accordingly, Governor Mills said, he would vote to disapprove the application.

Governor Robertson said that he had sympathy with the point of view expressed by Governor Mills. However, he was inclined favorably toward the application on the ground that approval would give Western Bancorporation one more office in Phoenix to compete with the larger Valley National Bank group. He noted that if there appeared to be any possibility of stimulating competition for the two large banking organizations by refusing to approve the application, he would so vote. Unfortunately, this did not appear to be the case. Governor Robertson went on to say, in response to a question from Governor Shepardson, that there might be some hope of stimulating banking competition in Arizona by independent interests provided the Comptroller of the Currency and the Board took a firm position against further expansion of the

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Valley National Bank group and the Western Bancorporation units.

However, in the absence of any such meeting of the minds, he did not see how the Board could justifiably restrict expansion of Southern Arizona Bank and Trust Company, which was the only State member bank involved.

Governor Shepardson said that he would be sympathetic toward trying to curb expansion of the two organizations that, between them, controlled almost all of the banking resources of the State. However, his reasoning with respect to this particular application was the same as that of Governor Robertson. In the absence of a joint approach on the part of the Board and the Comptroller of the Currency, he doubted whether much could be accomplished.

In the discussion that ensued, Governor Mills expressed the view that it was the Board's responsibility to focus its attention on applications coming before it and to take whatever action it thought was correct, without reference to the attitude taken toward similar applications by another supervisory agency. In this connection, he recalled that the Board recently rejected the application of BancOhio Corporation to acquire The Hilliard Bank, Hilliards, Ohio, even though the Comptroller of the Currency had previously authorized the establishment of certain branches in the area by the banking subsidiary of BancOhio in Columbus.

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In reply to a question raised in further discussion, it was stated that apparently Western Bancorporation had elected to expand its operations in the Phoenix area via Southern Arizona Bank and Trust Company rather than via First National Bank of Arizona because the former desired to begin to establish offices outside the Tucson area. In addition, it had been suggested by the applicant that competition existed between the subsidiary banks, but this contention was not given a great deal of weight by the Division of Examinations.

Question also was raised as to whether First National Bank of Arizona might have been precluded from establishing additional branches in Phoenix, and it was decided to defer action on the application of Southern Arizona until it had been ascertained from the Office of the Comptroller of the Currency whether any such applications by First National had recently been denied.

Mr. Noyes, Director, Division of Research and Statistics, joined the meeting during the foregoing discussion.

Application of United California Bank (Item No. 7). There had been circulated under date of April 17, 1961, a memorandum from the Division of Examinations relating to an application by United California Bank, Los Angeles, California, for permission to establish a branch adjacent to the Los Angeles Producers Stock Yards, Los Angeles County. Included in the file was a draft of letter to United California Bank that would approve its application, on which both the Division of

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Examinations and the Federal Reserve Bank of San Francisco had recommended favorably. When the file was in circulation, Governor Robertson indicated that he had a question concerning the application.

Governor Robertson said that although he would not oppose this particular application, he wished to call attention to the expansion plans of this bank, as well as other large banks in California, and emphasize the importance of expediting the factual study regarding branch banking in California and related matters currently being undertaken by the staff pursuant to the understanding at the Board meeting on March 10, 1961. He drew attention to the fact that the applicant bank was now operating 122 branches, had approval for eight others not yet established, and in addition had pending 22 applications for new branches, two of which involved bank mergers. It was his view, Governor Robertson said, that the stated intentions of the large banking organizations in California to expand branchwise must be watched carefully. Therefore, he wished to throw out a word of caution about the whole program, and to express the hope that the current survey would be expedited.

Governor King indicated that he could not get too disturbed by the publicly expressed intention of the large banks to expand. He thought it desirable that other banks beside the largest, Bank of America National Trust and Savings Association, expand their operations so as to provide effective competition. Although he believed it possible that the number of branch banking offices in an area such as

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California might tend to become excessive, he was favorably impressed by statements that he had heard about the good treatment and service being provided their customers by large California banks. It was his general philosophy, Governor King said, that if the customers of banks were satisfied, this was a factor that should be considered carefully before any decision was made to clamp down on further expansion.

The letter to United California Bank approving the establishment of a branch adjacent to the Los Angeles Producers Stock Yards was then approved unanimously. A copy of the letter is attached hereto as Item No. 7.

Messrs. Johnson and Leavitt then withdrew from the meeting.

Operation Alert 1961. At the request of the Board, Mr. Harris outlined the procedures contemplated to be followed in connection with Operation Alert 1961, Phase I of which was scheduled to be conducted from Wednesday, April 26, through Saturday, April 29. Phase II, the nature of which he described briefly, was to be conducted in the latter part of August, and Phase III was to be conducted in October. As background to his comments on the forthcoming exercise, Mr. Harris summarized some of the more recent developments in connection with the part of the defense planning program relating to banking and monetary affairs.

All of the members of the staff except Messrs. Sherman, Kenyon, and Landry then withdrew.

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Visit by group of Kentucky bankers. Governor Shepardson reported receipt of a letter from a representative of the Kentucky Bankers Association relating to a trip to the Washington area in July that was being planned for a group of country bankers under the auspices of the Association's Agricultural Committee. The letter raised the question whether the visiting group of bankers might visit the Board's offices on Tuesday, July 11, for an economic presentation.

After discussion, during which distinctions were drawn between a visit by a group of this kind and those made during the first part of each calendar year by officers of various State bankers associations, it was agreed that it would be appropriate for Governor Shepardson to extend an invitation to the group of country bankers to visit the Board's offices on the date indicated, and in that connection to make arrangements for a suitable presentation by a member or members of the Board's staff.

The meeting then adjourned.

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

Letter to the Federal Reserve Bank of New York (attached Item No. 8) approving the appointment of Lawrence E. Schembri as assistant examiner.

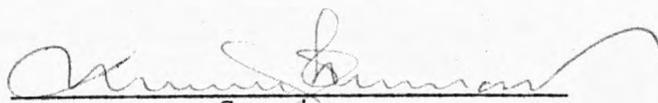
Letter to the Federal Reserve Bank of Atlanta (attached Item No. 9) approving the designation of W. James Montgomery as special assistant examiner.

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Memoranda from appropriate individuals concerned recommending increases in the basic annual salaries of the following persons on the Board's staff, effective April 30, 1961:

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Office of the Secretary</u>			
Alberta L. Thorley, Senior Records Clerk		\$5,170	\$5,335
<u>Research and Statistics</u>			
Nancy A. Milner, Statistical Clerk		4,250	4,355
<u>Bank Operations</u>			
W. Lucius Thalley, Clerk		4,285	4,390
<u>Personnel Administration</u>			
June A. Stetter, Administrative Assistant		9,735	9,995
<u>Administrative Services</u>			
Donald W. Moon, Supervisor, Procurement Section		7,095	7,260
Charles R. Norris, Head, Mail and Messenger Service		5,005	5,170
Barbara Kay, Operator, Key Punch		3,865	3,970
James T. Stewart, Mail Clerk		4,285	4,390


Secretary

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

Item No. 1
4/25/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 25, 1961

Board of Directors,
Rhode Island Hospital Trust Company,
Providence, Rhode Island.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Boston, the Board of Governors of the Federal Reserve System approves the establishment of a branch at 11 Kilvert Street, Warwick, Kent County, Rhode Island, by Rhode Island Hospital Trust Company, provided the branch is established within one year from the date of this letter.

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
4/25/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 25, 1961



Board of Directors,
The Chase Manhattan Bank,
New York, New York.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of New York, the Board of Governors of the Federal Reserve System approves the establishment of a branch by The Chase Manhattan Bank, New York, New York, at 156-02 Cross Bay Boulevard, Howard Beach, Queens County, New York, provided the branch is established within one year from the date of this letter.

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
4/25/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 25, 1961

Philadelphia International Investment
Corporation,
Philadelphia, Pennsylvania.

Gentlemen:

Consideration has been given by the Board of Governors to the request contained in your letter of March 21, 1961, transmitted through the Federal Reserve Bank of Philadelphia, for the Board's general consent to Philadelphia International Investment Corporation (PIIC) to purchase and hold stock in generally designated types of corporations.

On the basis of the information furnished as to investment policies to be pursued by PIIC, the Board grants its general consent, for the purposes of the first sentence of Section 211.9(c) of Regulation K, to PIIC to purchase and to hold shares of stock of any foreign corporation, provided the aggregate investment in any one foreign corporation and its subsidiaries (on a combined basis) shall not exceed 5 per cent of the capital and surplus of PIIC, subject to the following conditions:

- (1) This authorization shall be applicable only to investments made on or before December 31, 1961. Options to acquire stocks subsequent to the termination date (December 31, 1961) of the general consent may not be exercised unless specifically approved by the Board or permitted under a then effective general consent.
- (2) The Board of Governors shall be informed promptly in writing, through the Federal Reserve Bank of Philadelphia, when any such investment is made, together with pertinent details regarding such investments, and the Board of Governors shall be furnished within thirty days after acquisition: (a) a balance sheet of the corporation whose stock has been acquired, showing the financial position of the corporation as of a recent date, together with an income statement for the preceding fiscal period; (b) a brief description of the business of the corporation; (c) a list of officers and directors, with addresses and principal business affiliations; (d) a description

of the stock acquired; (e) information concerning the rights and privileges of the various classes of stock of the corporation outstanding; (f) a list of all stockholders holding 5 per cent or more of any class of stock of such corporation and their holdings; and (g) a brief description of any loan or credit transaction with the corporation in connection with which the stock was acquired. If, upon review of such information, the Board of Governors determines that an investment is contrary to the investment program of PIIC as submitted to the Board in your letter of March 21, 1961, or is otherwise objectionable to the Board of Governors, PIIC shall take the necessary steps to divest itself of such investment, upon notice to that effect and within such time as the Board may specify.

- (3) Investments by PIIC under this general consent shall be made in accordance with sound financial policies, including, among others, (a) appropriate diversification of its loan and investment portfolios so as to avoid undue concentrations in loans to, and investments in, individual enterprises, industries, or otherwise, and (b) proper regard to the relationship between its assets and the maturities of its obligations.
- (4) PIIC shall be expected to dispose of its holdings of stock of such foreign corporation, as promptly as practicable, in the event that such foreign corporation should at any time (a) engage in the business of issuing, underwriting, selling or distributing securities; (b) 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 (c) conduct its operations in a manner which, in the judgment of the Board of Governors, is inconsistent with Section 25(a) of the Federal Reserve Act or regulations thereunder.
- (5) Such investments shall not be made in the shares of financial corporations or holding companies.
- (6) The investment in any such foreign corporation shall not include more than 49 per cent of its voting shares or otherwise enable PIIC to designate a majority of the foreign corporation's board of directors or similar management group.

Philadelphia International Investment Corporation -3-

- (7) 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) shall not exceed 25 per cent of PIIC's capital and surplus.
- (8) The aggregate equity investment in all foreign corporations doing business in any one country, colony, possession or dependency shall not exceed 25 per cent of PIIC's capital and surplus.
- (9) Under this general consent, shares shall be acquired only from the issuer directly.

The right is reserved to terminate this general consent upon ninety days' written notice to PIIC.

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. 4
4/25/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 25, 1961

Board of Directors,
Bank of Smithfield,
Smithfield, Virginia.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an investment by Bank of Smithfield, Smithfield, Virginia, of \$91,500 in bank premises for the purposes of constructing enlarged banking quarters and improving parking facilities.

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. 5
4/25/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 25, 1961

Board of Directors,
Mountain Trust Bank,
Roanoke, Virginia.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve System approves the establishment by Mountain Trust Bank, Roanoke, Virginia, of a branch at 4920 Williamson Road, Roanoke, Virginia, provided the branch is established within six months from the date of this letter.

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
4/25/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 25, 1961

CONFIDENTIAL (FR)

Mr. Carl E. Allen, President,
Federal Reserve Bank of Chicago,
P. O. Box 834,
Chicago 90, Illinois.

Dear Mr. Allen:

The Board of Governors approves the payment of salary to Mr. Joseph B. Lederleitner as Assistant Counsel and Assistant Secretary of the Federal Reserve Bank of Chicago at the rate of \$14,000 per annum, which is the rate fixed by your Board of Directors as reported in your letter of April 13, 1961, effective the date of his appointment through December 31, 1961.

It is understood that his appointment will be effective July 1, 1961, or on such earlier date as may be mutually agreed upon by your Bank and Mr. Lederleitner.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.



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

Item No. 7
4/25/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 25, 1961

Board of Directors,
United California Bank,
Los Angeles, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors of the Federal Reserve System approves the establishment of a branch adjacent to the Los Angeles Producers Stock Yards in the vicinity of the intersection of South Street and Carmenita Avenue, Dairy Valley, Los Angeles County, California, by United California Bank, provided the branch is established within 6 months from the date of this letter.

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. 8
4/25/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 26, 1961

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 April 20, 1961, the Board approves the
appointment of Lawrence E. Schembri as an assistant
examiner for the Federal Reserve Bank of New York.
Please advise us of the effective date of the
appointment.

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. 9
4/25/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 25, 1961

Mr. Geo. W. Sheffer, Jr.,
Chief Examiner,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Sheffer:

In accordance with the request contained in your letter of April 19, 1961, the Board approves the designation of W. James Montgomery as a special assistant examiner for the Federal Reserve Bank of Atlanta for the purpose of participating in examinations of State Member banks only.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

