

Minutes for May 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	<u>M</u>
Gov. Szymczak <u>1/</u>	<u></u>
Gov. Mills	<u></u>
Gov. Robertson	<u>R</u>
Gov. Balderston	<u>CCB</u>
Gov. Shepardson	<u>SS</u>
Gov. King	<u>King</u>

1/ In view of his plan to resign as a member of the Board of Governors effective June 1, 1961, Governor Szymczak did not attend Board meetings from April 20, 1961, through May 31, 1961, and therefore the minutes covering that period were not circulated to him.

Minutes of the Board of Governors of the Federal Reserve System
on Wednesday, May 31, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Miss Carmichael, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Noyes, Director, Division of Research
and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Masters, Associate Director, Division of
Examinations
Mr. Hexter, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Daniels, Assistant Director, Division of
Bank Operations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Smith, Senior Economist, Division of Research
and Statistics
Mr. Achor, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of Boston and Atlanta on May 29, 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.

Items circulated to the Board. The following items, which had been circulated 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 Northwestern Bank of Commerce, Duluth, Minnesota, approving an investment in bank premises.	1
Letter to The Manistee County Savings Bank, Manistee, Michigan, approving the declaration of a semi-annual dividend payable on June 15, 1961.	2
Letter to Lorin Investment Co., Inc., Brighton, Colorado, regarding its status as a holding company affiliate.	3

Proposed conversion of The Michigan Bank into a national banking association (Item No. 4). There had been circulated to the members of the Board a draft of letter to the Comptroller of the Currency recommending that the application of The Michigan Bank, Detroit, Michigan, to convert into a national banking association be approved only after an adequate capital structure had been provided.

On the basis of a suggestion by Governor Shepardson when the file was in circulation, certain editorial changes in the wording of the letter were proposed by the staff, after which the letter was approved unanimously in the form attached as Item No. 4.

Report on competitive factors (Oil City-Butler, Pennsylvania).

A draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed purchase of assets and assumption of liabilities of the East Brady Office of Butler Savings and Trust Company, Butler, Pennsylvania, by Oil City National Bank, Oil City, Pennsylvania, had been distributed. The report concluded as follows:

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The proposed purchase of assets and assumption of liabilities of the East Brady Office of Butler Savings and Trust Company, Butler, Pennsylvania, by Oil City National Bank, Oil City, Pennsylvania, would eliminate no competition as none currently exists between the two banks.

This transaction will transfer the competitive capabilities of a banking office from one bank to another bank of similar size. Some competition may be created between the East Brady Office, as a branch of Oil City National Bank, and the Parker Office of Butler Savings and Trust Company, where none formerly existed.

There being no objection, the report was approved unanimously for transmittal to the Comptroller.

Application of Gloucester Safe Deposit and Trust Company (Item No. 5). There had been distributed to the members of the Board under date of May 23, 1961, a memorandum from the Division of Examinations recommending disapproval of an application by Gloucester Safe Deposit and Trust Company, Gloucester, Massachusetts, to merge with The Cape Ann National Bank of Gloucester and to operate certain branches incident to the merger. The Federal Reserve Bank of Boston had recommended approval of the application; the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Department of Justice had expressed the view that the proposed transaction would result in a lessening of competition.

Commenting on the proposed merger, Mr. Solomon observed that this was a rather difficult case, one in which an analysis in terms of definition of the competitive area seemed important. Looking at the immediate area of Gloucester, if the merger were effected the resulting

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bank would have total deposits of individuals, partnerships, and corporations of about \$13 million. The one remaining commercial bank in Gloucester (Gloucester National Bank) had only one office and IPC deposits of about \$4 million. Thus, while the resulting institution would not be a large bank, it would have four of the five commercial banking offices in Gloucester and more than 75 per cent of the IPC deposits. On the other side of the picture, the immediate Gloucester area was considered to be somewhat overbanked. Aside from commercial banking facilities, there was in the city a mutual savings bank with deposits of over \$16 million, along with a cooperative bank (savings and loan association) of substantial size. In terms of the broader trading area, substantial competition was provided by several commercial banks, savings banks, and cooperative banks. Also, some competition was provided by Boston banks.

After considering all the factors, Mr. Solomon said, the Division of Examinations had concluded that despite the favorable factors, more weight should be given to the elimination of substantial competition between the two banks proposing to merge and the tendency toward monopoly of commercial banking resources in Gloucester. Accordingly, the Division recommended that the application be denied.

Governor Mills stated that he would concur in the position taken by the Boston Reserve Bank. The City of Gloucester had a population of about 25,000, and there were grounds for thinking that it had been

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overbanked. The existing banks were small for a community of that size. In fact, if the merger were approved, the resulting bank would still be small for the area, having IPC deposits of only \$13 million. The community could profit by having a bank with larger resources at its disposal, the area was rather densely populated, and there were alternative banking facilities available within a reasonable distance even if one excluded the substantial mutual savings bank operating in Gloucester. He noted, in this connection, that in Massachusetts mutual savings banks offer a wider range of services than is usual for such institutions. In the circumstances it was his feeling that it would be in the public interest to approve the application.

Governor Robertson said although there were arguments for approving the application, he would agree with the Division of Examinations that the application should be denied. He could see nothing to indicate that the two banks involved in the proposed merger were too small for the community in which they operated, that the needs of the community were not being served at the present time, or that those needs would be served better by merging the two banks. Approval of the merger would result in a tendency toward monopoly and elimination of existing competition between the participating banks. Also, the relatively inferior competitive status of the other commercial bank in Gloucester would be exaggerated. Accordingly, he would disapprove the application.

Governor Shepardson commented that without question some existing competition would be eliminated by the merger. However, the strengthening

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of the resulting bank vis-a-vis other competing institutions in the general area would appear to be a favorable factor. Therefore, after considering the arguments on both sides, he would favor approving the application.

Governor King commented that if the proposed transaction were viewed only in the light of the percentage of deposits in Gloucester that the resulting bank would hold, it would seem that an adverse decision should be reached. However, when the deposits of the resulting bank were compared with the deposits of other commercial banks and savings institutions in the service area, they seemed less significant. Therefore, despite the arguments that had been advanced for denying the application, in the light of all the circumstances involved he would approve it. He noted, in a further comment, that under the terms of the merger plan shareholders of The Cape Ann National Bank would receive less than the book value of their stock. This, he felt, provided an indication of the real motivation behind the proposed merger.

Governor Balderston stated that in view of the existence of the mutual savings bank in Gloucester, its size and its competitive vigor, as well as the factors mentioned by Governor Mills and others, he would favor approval of the application. Chairman Martin likewise indicated he would favor approval.

The application of Gloucester Safe Deposit and Trust Company to merge with The Cape Ann National Bank of Gloucester under the title of

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Cape Ann Bank & Trust Company was then approved, Governor Robertson dissenting. A copy of the letter sent to the applicant bank pursuant to this action is attached as Item No. 5.

Application of The Farmers & Merchants Bank of Spencer (Item No. 6). There had been distributed under date of May 16, 1961, a memorandum from the Division of Examinations recommending, as had the Federal Reserve Bank of New York, approval of the merger of The First National Bank of Candor, Candor, New York, with The Farmers & Merchants Bank of Spencer, N. Y., Spencer, New York, under the charter of the latter, and operation of the office of the merging bank as a branch of the resulting bank. The Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Department of Justice had each expressed the view that the proposed merger would not appear to have an adverse effect upon competition.

After consideration of the available information, including the basis for approval suggested by the Division of Examinations, the application was approved unanimously. A copy of the letter sent to the applicant bank pursuant to this action is attached as Item No. 6.

Mr. Achor then withdrew from the meeting and Mr. Fauver, Assistant to the Board, entered the room.

Report on activities protecting or advancing consumer interests (Item No. 7). By letter dated May 3, 1961, Chairman Fountain of the Intergovernmental Relations Subcommittee, House Committee on Government

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Operations, requested, as part of a general study, information regarding any Federal Reserve activities that would tend to protect or advance consumer interests. In light of staff discussion with a member of the staff of the Subcommittee which indicated a desire for a rather comprehensive reply regarding various Federal Reserve activities, especially those in the area of bank supervision and examination, there had been distributed to the members of the Board, with an accompanying memorandum from Mr. Noyes dated May 26, 1961, a draft of such a reply.

After certain changes and additions suggested by Governor Mills had been agreed upon, the letter was approved unanimously in the form attached as Item No. 7.

Mr. Smith then withdrew from the meeting and Mr. O'Connell, Assistant General Counsel, entered the room.

Paramount Life Insurance Company of Texas (Item No. 8). In a letter dated January 23, 1961, the Board advised The Continental Bank and Trust Company, Salt Lake City, Utah, of its opinion that the purchase of stock of the Paramount Life Insurance Company of Texas by trustees for the account of the bank constituted a violation of section 9 of the Federal Reserve Act and requested the bank to take appropriate steps to divest itself of all interest in that stock within 90 days or such additional period of time as might be allowed by the Board. The January 23 letter suggested three alternatives: (1) bona fide sale of

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the stock of Paramount by the trustees; (2) termination of the trust by action of the board of directors of the bank and distribution of the trust estate directly to shareholders of the bank; or (3) amendment of the terms of the trust to provide that dividends on the stock would be paid to shareholders of the bank and that the trustees would thereafter hold such stock solely for the benefit of the shareholders.

There had been distributed to the members of the Board a memorandum from the Legal Division dated May 25, 1961, regarding the reply received from the directors of Continental under date of March 14, 1961. The reply expressed disagreement with the Board's conclusion "that the creation of the trust with Continental Bank as the primary beneficiary constituted a violation by the bank of the 20th paragraph of section 9 of the Federal Reserve Act." However, both Continental's board of directors and the trustees of the trust agreed that, in the light of the Board's views as set forth in the January 23 letter, the trustees were required by the terms of the declaration of trust to pay any dividends received from Paramount Life Insurance Company directly to the shareholders of Continental in proportion to their ownership of stock in that bank. The letter from Continental Bank stated further that the "bank's beneficial interest in the trust has been effectively terminated."

In the judgment of the Legal Division, the objective sought by the alternatives suggested in the January 23 letter appeared to be

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effectively accomplished by the position to which Continental had now committed itself. Attached to the May 25 memorandum was a draft of letter apprising Continental of the Board's understanding of the compliance effect inherent in the statement of position contained in Continental's letter to the Board.

At the Board's request, Mr. O'Connell reviewed the facts of the case and the legal considerations involved, his comments being based substantially on the May 25 memorandum. He and Mr. Hexter pointed out that the purpose of the proposed reply was to make a record that the rather ambiguous letter from Continental Bank was intended to indicate substantial compliance with the Board's letter of January 23. They noted, however, that the bank may not have intended such a construction and, if not, might object to the Board's reply.

A general discussion followed during which Governor King raised the question whether, in practical effect, a great deal had been accomplished, even if the assumptions made from Continental's letter correctly interpreted the position of the bank. In response, it was pointed out that the fundamental decision had been made earlier when the January 23 letter was sent to Continental and several alternative courses of action were outlined therein. It was recognized, as aforesaid, that the letter from Continental left some room for doubt as to the proper interpretation. However, if the interpretation placed upon it by the staff was correct, then the bank would appear to have complied with the law. By the same

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token, it would have complied in effect with one of the alternatives suggested in the January 23 letter.

At the conclusion of the discussion the letter to The Continental Bank and Trust Company was approved. A copy is attached as Item No. 8.

Messrs. Noyes and O'Connell then withdrew from the meeting.

Fixed asset and depreciation accounting at Federal Reserve Banks (Item No. 9). At Board meetings, most recently on February 27, 1961, consideration had been given to studies and discussions engaged in for some time by the Board, its staff, the Presidents' Conference, and Price Waterhouse & Co. with regard to depreciation on buildings and fixed machinery and equipment at the Reserve Banks, and related accounting procedures. At the February 27 meeting, some doubt was expressed as to whether enough would be gained by making changes that had been proposed by the Presidents' Conference Committee on Collections and Accounting to warrant a revision of the existing procedures. Accordingly, the Division of Bank Operations was requested to pursue the matter further with Price Waterhouse.

There had now been distributed to the members of the Board a memorandum from the Director of the Division of Bank Operations dated May 2, 1961, which indicated that after reviewing the various alternative accounting procedures that might be adopted, both the Division and Price Waterhouse had agreed that no depreciation procedure would be completely satisfactory to all concerned, that the procedure now in effect served

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the purpose for which it was intended, and that the advantages of possible alternatives were not impressive enough to warrant a change. This view was endorsed in an attached letter from Price Waterhouse dated May 9, 1961. Submitted with the memorandum was a draft of letter to the Chairman of the Conference of Presidents which would enclose a copy of the May 2 memorandum and indicate that the Board concurred in the views expressed therein.

After Mr. Daniels had commented on the matter, the letter to the Chairman of the Conference of Presidents was approved unanimously. A copy is attached as Item No. 9.

Mr. Daniels then withdrew from the meeting.

Report on competitive factors (Charlottesville-Waynesboro, Virginia). A draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Citizens-Waynesboro Bank and Trust Company, Waynesboro, Virginia, with and into The Peoples National Bank of Charlottesville, Charlottesville, Virginia, had been distributed under date of May 26, 1961.

In discussion, deletion of a portion of the conclusion was suggested and agreed upon. The report was then approved unanimously for transmittal to the Comptroller in a form in which the conclusion read as follows:

The proposed transaction would combine two competitive banks and eliminate a competitor of established capacity. Further, the transaction evidences a trend towards area monopoly and has been preceded by three other acquisitions in the past three calendar years.

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The meeting then adjourned.

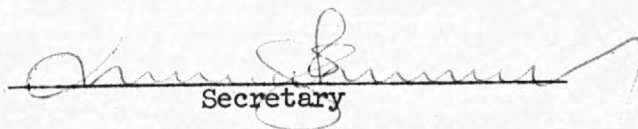
Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Memorandum from Governor Szymczak recommending acceptance of the resignation of John Thomas McNeil, Secretary to the Governor, effective at the close of business May 31, 1961.

Memorandum from Mr. Kern, Assistant Director, Division of Administrative Services, recommending that two persons be employed in that Division on a temporary basis (beginning about June 6, 1961, and extending approximately six pay periods) for the purpose of installing new property identification tags on the Board's furniture and equipment. It was understood that the expense would be charged to the Personal Services budget of the Division rather than to the Contractual Services Account, in which \$1,800 had been provided for this work.

Letter to all Federal Reserve Banks approving the disposal of reports filed with them on Form F.R. 240, Report of Member Firm of a National Securities Exchange, after a retention period of two years.

Letter to all Federal Reserve Banks transmitting copies of the forms to be used by State member banks and their affiliates in submitting reports of condition as of the next call date, with the understanding the letter would be sent when the forms were printed.


Secretary

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

Item No. 1
5/31/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 31, 1961



Board of Directors,
Northwestern Bank of Commerce,
Duluth, Minnesota.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Minneapolis, the Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an investment in bank premises by Northwestern Bank of Commerce of not to exceed \$675,000 for the purpose of constructing new bank premises. This amount includes (1) \$75,000, cost of land and buildings on leasehold property, and (2) \$600,000 construction costs, including the demolition of existing structures.

It is understood that in accordance with approval given by the State Banking Department the carrying value of bank premises will at no time exceed \$450,000, and that the investment will be reduced by amounts at least equal to the maximum allowed for income tax purposes.

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
5/31/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 31, 1961



Board of Directors,
The Manistee County Savings Bank,
Manistee, Michigan.

Gentlemen:

The Board has reviewed a copy of your letter of May 1, 1961, to Mr. Hugh J. Helmer, Vice President, Federal Reserve Bank of Chicago, Chicago, Illinois, requesting that you be permitted to declare a semiannual dividend of \$16,000 (4 per cent) payable on June 15, 1961. The Board's permission is necessary under the provisions of Section 9 of the Federal Reserve Act and Section 5199(b), United States Revised Statutes.

After consideration of the facts, the Board approves the declaration of this dividend. This approval is confined to the declaration of a dividend to be paid June 15, 1961, and does not authorize any other declaration of dividends during 1961 or later.

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
5/31/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 31, 1961



Mr. Leslie L. Sayre, President,
Lorin Investment Co., Inc.,
5 North Main,
Brighton, Colorado.

Dear Mr. Sayre:

This refers to the request contained in your letter of April 28, 1961, submitted through the Federal Reserve Bank of Kansas City, for a determination by the Board of Governors of the Federal Reserve System, as to the status of Lorin Investment Co., Inc., as a holding company affiliate.

From the information submitted, the Board understands that Lorin Investment Co., Inc. was organized for the purpose of acquiring a majority of the shares of stock of First Bank of Brighton, Brighton, Colorado, and presently owns 4,080 of the 8,000 outstanding shares of stock of this bank; that the company plans to engage in the writing of insurance in order to have income other than from dividends on this stock; and that the company does not, directly or indirectly, own or control any stock of any other banking institution, or manage or control, any banking institution other than First Bank of Brighton.

In view of these facts, the Board has determined that Lorin Investment Co., Inc. is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933, as amended; and accordingly, Lorin Investment Co., Inc. is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act, and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.

If, however, the facts should at any time indicate that Lorin Investment Co., Inc. might be deemed to be so engaged, this matter should again be submitted to the Board. Particularly, should

Mr. Leslie L. Sayre

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future acquisitions by or activities of the company result in its attaining a position whereby the Board may deem desirable a determination that the company is engaged as a business in the holding of bank stock, or the managing or controlling of banks, the determination herein granted may be rescinded. The Board reserves the right to rescind this determination and make further determination of this matter at any time on the basis of the then existing facts.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
5/31/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 31, 1961



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

Attention: Mr. W. M. Taylor,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated May 1, 1961, enclosing copies of an application of The Michigan Bank, Detroit, Michigan, to convert into a national banking association and requesting a recommendation as to whether or not the application should be approved.

A field investigation in connection with this application has not been made, but the Federal Reserve Bank of Chicago has furnished us a report on the application based on the March 7, 1960, examination and other available data.

The applicant bank was organized as an industrial bank in 1926. It closed February 11, 1933, and a receiver was appointed by the State Banking Department. Ultimately, creditors of the bank received 100 per cent of deposits and the bank was reopened. The bank is well established and appears to be serving the convenience and needs of the area. Management is favorably regarded.

Capital structure of this bank is unsatisfactory. Since 1958 the Federal Reserve Bank of Chicago has been urging this bank to provide additional capital, and when granting the bank permission to exercise trust powers January 5, 1961, the Board stressed the need for strengthening capital structure of the bank as rapidly as possible. This application to convert to a national association may well stem from an action by the State Banking Department, which recently informed the bank that it could not approve applications to establish additional branches without a reasonable increase in the bank's capital structure through sale of additional stock. It is understood that Director Howard Stoddard informed the State Banking Department that no additional capital was to be provided and that, if the Department insisted, he would have the bank converted to a nationally chartered institution.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Comptroller of the Currency

2.

Earnings of this bank are only fairly good due to the heavy expenses, particularly that of interest on time deposits which total 85 per cent of total deposits. For the foreseeable future this bank's net earnings will probably be well below the average. This makes it doubtful that additions to capital funds from earnings will even be sufficient to keep pace with the bank's growth, especially if the bank continues to grow as rapidly as it has during the past five years. In view of the unsatisfactory capital position of the bank which apparently cannot be corrected from retained earnings and management's extreme reluctance to provide capital when needed, the Board of Governors recommends that the bank be granted a national charter only after an adequate capital structure has been provided.

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
5/31/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



May 31, 1961

Board of Directors,
Gloucester Safe Deposit and Trust Company,
Gloucester, Massachusetts.

Gentlemen:

The Board of Governors of the Federal Reserve System, after consideration of all the factors set forth in section 18(c) of the Federal Deposit Insurance Act, as amended by the Act of May 13, 1960, and finding the transaction to be in the public interest, hereby consents to the merger of The Cape Ann National Bank of Gloucester, Gloucester, Massachusetts, with and into Gloucester Safe Deposit and Trust Company, Gloucester, Massachusetts, under the charter of the latter and new title of Cape Ann Bank & Trust Company. The Board of Governors also approves the operation of branches by the resulting bank at the following locations:

154 Main Street, Gloucester, Massachusetts
Chester H. Grant Circle, Washington Street,
Gloucester, Massachusetts

Also, the Board approves the establishment of the present main office of applicant at 191 Main Street as a branch, if and when such office is transferred to the location of the present main office of Cape Ann National Bank at 154 Main Street.

This approval is given provided (1) the proposed merger is effected within six months from the date of this letter and substantially in accordance with the Agreement and Plan of Consolidation dated February 7, 1961, and (2) shares of stock acquired from dissenting shareholders are disposed of within six months from the date of acquisition.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 6
5/31/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 31, 1961

Board of Directors,
The Farmers & Merchants Bank of Spencer, N. Y.,
Spencer, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System, after consideration of all the factors set forth in section 18(c) of the Federal Deposit Insurance Act, hereby consents to the merger of The First National Bank of Candor, Candor, New York, with The Farmers & Merchants Bank of Spencer, N. Y., Spencer, New York, under the charter of the latter bank, as such merger is believed to be in the public interest.

The Board of Governors also approves the operation of a branch at the present banking premises of The First National Bank of Candor.

This approval is given provided the transaction is consummated within six months from the date of this letter substantially in accordance with the Plan of Merger submitted with the application, and shares of stock acquired from dissenting shareholders are disposed of within six months from the date of acquisition.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.





BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 7
5/31/61

OFFICE OF THE CHAIRMAN

June 2, 1961

The Honorable L. H. Fountain,
Chairman,
Intergovernmental Relations Subcommittee,
House Committee on Government Operations,
Washington 25, D. C.

Dear Mr. Chairman:

Your letter of May 3 and the "Questionnaire on Consumer Protection Activities" asked for information about any Federal Reserve activities which protect or advance consumer interests, and I understand that this matter has been discussed by members of our staff with the Counsel for your Subcommittee, Mr. James Naughton.

Our staff has advised me that Mr. Naughton expressed a definite interest in receiving information concerning various Federal Reserve activities, especially those in the area of bank supervision and examination, which he thought might be relevant in connection with the first part of your questionnaire. We hope that the following material will meet your needs.

The major activities of the Federal Reserve are designed to aid the proper functioning of the banking and currency systems of the country and to assist in promotion of our economic well-being. While these activities are of indirect benefit to consumers, we do not consider that any of the activities of the Federal Reserve are designed to or have the effect of directly protecting or advancing consumer interests.

The authority for most Federal Reserve activities stems from the Federal Reserve Act of 1913, as amended particularly by the Banking Acts of 1933 and 1935. The Federal Reserve Act is entitled "An Act To provide for the establishment of Federal Reserve

The Honorable L. H. Fountain - 2 -

banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes." The Act makes no specific reference to consumer interests. Clearly, however, consumers, as members of the general public, are expected to benefit indirectly from the authorized actions.

The Federal Reserve System also takes into consideration the provisions of the Employment Act of 1946. Section 2 of that Act reads as follows:

"The Congress declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labor, and State and local governments, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power."

As you are aware, the principal function of the Federal Reserve is to influence the flow of credit and money in accordance with the needs of the economy. Actions taken by the Federal Reserve System in pursuance of the objectives of general credit and monetary policy are intended to help foster price stability, high levels of production and employment, and economic growth. These actions include open market operations in U. S. Government securities and bankers' acceptances, changes in the discount rate for temporary credit granted to member banks, and, on occasion, changes in member bank reserve requirements. Through their effect on bank reserve positions, these actions influence the availability of credit and money throughout the economy. When credit policy is eased, credit tends to become more readily available to borrowers generally, and when credit policy becomes more restrictive, expansion of credit is moderated for various types of users. These actions, however, do not influence directly the nature of loans made by banks or

other lenders.

At times the Federal Reserve System has been given authority to issue specific regulations regarding certain types of loans. During limited periods in the past--in 1941-47, 1948-49, and 1950-52--the Federal Reserve regulated maturity and down-payment requirements on consumer instalment credit. In 1950-52 it also regulated terms on mortgage credit and administered a Voluntary Credit Restraint Program which established standards for business loans and security issues. These were emergency provisions adopted to help restrict the increase in total credit and expenditures when inflationary pressures were strong as a result of unusual influences. In the first and third of these periods, defense expenditures associated with the Second World War and the Korean episode were diverting resources from the rest of the economy, and borrowing by the U. S. Government was an important influence on the demand for credit. These selective credit measures, which were provided for by the Defense Production Act of 1950, were accompanied by controls on prices and production, as you will recall. While consumers were affected by the limitation on terms of lending on mortgage and consumer credit, the objective of such regulation, like that of the general credit measures discussed above, was primarily to influence the over-all flow of credit and money.

The Federal Reserve System has certain responsibilities in connection with bank supervision and examination, an area which seemed of particular interest to Mr. Naughton, as noted above. These responsibilities are limited, however, and are not intended to influence directly the relationships between banks and their customers. Of the 13,100 commercial banks insured by the Federal Deposit Insurance Corporation, 6,174 are members of the Federal Reserve System. Of the members, 4,530 are national banks and the remaining 1,644 are State banks. The Federal Reserve can neither grant nor revoke charters of either national banks or State member banks. The national banks are chartered by the Comptroller of the Currency. The State banks are chartered by the government of the State in which they are located. Together with the chartering powers, the primary powers of bank supervision and examination are vested in the Comptroller of the Currency, for national banks, and in the various State banking authorities, for State banks. The only banks which the Federal Reserve System examines, except in connection with applications for admission to membership, are the

The Honorable L. H. Fountain - 4 -

1,644 State chartered member banks which ordinarily are visited by examiners of a Federal Reserve Bank once each year.

Bank examination and supervisory processes of the Federal Reserve System are directed toward maintaining the financial soundness of member banks. Consumers of course benefit from sound banks in their capacity as bank depositors and as users of other bank services as well as through the salutary effects of a sound banking structure on the economy generally. Bank examination and supervisory processes of the Federal Reserve, however, are not intended to bear directly on the treatment accorded individual customers or groups of customers by commercial banks.

The efforts of examiners representing the Federal Reserve are directed toward ascertaining that the limitations imposed by banking laws are observed and toward determining the financial condition and safety of each bank. In the latter determination, the quality, collectibility, and diversification of the assets of each bank must be considered in relation to the character of its deposit liabilities, its liquidity needs, and the adequacy of its capital structure. Subject only to limitations imposed by State and national banking laws, decisions as to whether or not individual requests for loans are granted are the sole responsibility of the officers and directors of the bank concerned. During their periodic examinations, examiners for the Federal Reserve Banks review the policies of member State banks in all areas of lending. Individual loans which are in arrears as to principal and interest, or which appear to be over-liberal in relation to the paying ability of the maker and/or the value of the pledged collateral, may be subject to adverse classification, and in some cases criticism may be directed toward a bank's lending and collection policies in general. While consumers as well as other borrowers may be affected as a result of the bank examination process, this is an incidental result of a process designed to maintain sound individual banks and a sound and viable banking system.

It also should be mentioned that the Board's administration of the Bank Holding Company Act and the Board's authority under recently enacted bank merger legislation represent supervisory activities in the public interest directed toward the preservation of competition in banking and the elimination of trends toward monopoly. Such activities, at least indirectly, serve the best interests of the consumer public--the users of bank services as depositors and borrowers.

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Even the authority of the Board of Governors to prescribe margin requirements on security loans by brokers and dealers and by banks under the terms of the Securities Exchange Act of 1934 is not primarily designed to benefit consumers, but rather it is designed to aid in the maintenance of a sound securities market generally. Section 7 (a) of this Act reads in part: "For the purpose of preventing the excessive use of credit for the purchase or carrying of securities, the Board of Governors of the Federal Reserve System shall . . . prescribe rules and regulations with respect to the amount of credit that may be initially extended and subsequently maintained on any security (other than an exempted security) registered on a national security exchange." The regulation of margin requirements affects the flow of money into the securities market and limits speculation with borrowed money.

The Board of Governors is required to prescribe the maximum rates of interest payable on time and savings deposits by member banks under Section 19, Paragraph 13, of the Federal Reserve Act. Owners of time and savings deposits may be affected by the limits set, depending on the rates which would be paid on such deposits in the absence of regulation. The major objective of the regulation, however, is to prevent deterioration of the condition of the banking system resulting from possible detrimental competition for funds. A copy of the Board's Regulation Q concerning payment of interest on deposits is enclosed for your convenient reference. The Federal Deposit Insurance Corporation prescribes similar limits for the interest rates paid on time and savings deposits by nonmember insured banks.

In addition to its activities in bank supervision and examination in the interest of maintaining a sound banking system, the Federal Reserve System engages in various activities which have the effect of facilitating payments and trade over a broad area. The relevant activities include particularly the System's nationwide check-collection facilities and the supplying of currency to member banks to meet the needs in their areas. Members of the general public benefit from the resultant increase in convenience, speed, and economy of making payments. These activities are carried out by the Federal Reserve Banks under regulations of the Board of Governors. A copy of Regulation J covering check clearing and collection is also enclosed.

Other activities of possible interest involve the collection of statistics in various areas. Statistics collected by the

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Federal Reserve not only facilitate carrying out the various policy and operating functions of the Federal Reserve itself, but they also are made available to other agencies of the Government and to the general public. The primary purpose is to assist the Federal Reserve in the execution of its statutory functions, however.

I hope this information is helpful to you.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures

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

Item No. 8
5/31/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



May 31, 1961

Board of Directors,
The Continental Bank and Trust Company,
Salt Lake City 10, Utah.

Gentlemen:

This refers to (1) your letter of March 14, 1961, relating to the Declaration of Trust dated February 29, 1956, with respect to stock of Paramount Life Insurance Company of Texas, and (2) your letter of March 17, 1961, enclosing an executed copy of a letter of February 15, 1961, to you from the Trustees named in the Declaration of Trust.

On the basis of the statements contained in the Trustees' letter of February 15 and your letter of March 14, the Board understands that all dividends (and any other trust income) received hereafter by the Trustees will be distributed directly to the stockholders of The Continental Bank and Trust Company in proportion to their respective stock ownership in the Bank at the date of distribution.

The Board also notes the statement in your letter of March 14, that your Bank's beneficial interest in the trust established by the February 29, 1956, Declaration of Trust has been effectively terminated. From this it is inferred that, upon termination of the trust, the trust estate will be distributed directly to the stockholders of The Continental Bank and Trust Company in proportion to their respective stock ownership in the Bank at the date of distribution.

On the basis of the foregoing, it appears that the trust property, which now consists of stock of Paramount Life Insurance Company, is and will be held by the Trustees solely for the benefit of the stockholders of The Continental Bank and Trust Company and not for the benefit of the Bank itself.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 9
5/31/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 31, 1961.

Mr. Malcolm Bryan, Chairman,
Conference of Presidents,
c/o Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Bryan:

Enclosed is a copy of a memorandum distributed to the Board under date of May 2, 1961, concerning discussions by the Conference of Presidents, the Board, and the Board's accounting consultants (Price, Waterhouse & Co.) with regard to depreciation and fixed asset accounting procedures. This memorandum expresses the opinion that no procedure for depreciating Federal Reserve buildings would be completely satisfactory to all concerned, that the procedure now in effect serves the purpose for which it is intended, and that the advantages of possible alternatives are not impressive enough to warrant a change. The Board concurs in these views.

A copy of this letter with its enclosure is being sent to each Federal Reserve Bank.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure

