## Minutes for June 22, 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. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Minutes of the Board of Governors of the Federal Reserve System on Thursday, June 22, 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. Sherman, Secretary

Mr. Kenyon, Assistant Secretary

Mr. Solomon, Director, Division of Examinations

Mr. Hexter, Assistant General Counsel

Mr. Hooff, Assistant General Counsel

Mr. Sprecher, Assistant Director, Division of Personnel Administration

Mrs. Semia, Technical Assistant, Office of the Secretary

Report on competitive factors (New York City-White Plains, New York). The agenda for the Board meeting on June 21, 1961, included a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of National Bank of Westchester, White Plains, White Plains, New York, into The First National City Bank of New York, New York, New York, The conclusion in the draft report read as follows:

The proposed merger would have very little effect on the competitive situation in Nassau and the five counties comprising New York City. At the present time there is a significant amount of competition between First National City Bank and National Bank of Westchester which would be eliminated by the proposed merger. Moreover, permitting First National City Bank to acquire approximately 25 per cent of Westchester County banking offices might well give it a competitive advantage so great as to endanger the continued profitable operations of other Westchester banks. The FNCB would, because of its size, obtain a dominant Position, with attending competitive advantages, strongly adverse to the preservation of effective competition in Westchester County.

Governor Mills, who was not present at the June 21 meeting, had given the Secretary a statement of his views on the matter, with the request that the statement be submitted to the Board and made a part of the record. His statement was read at the June 21 meeting, after which the Board deferred further consideration of the report until today's meeting. Governor Mills' statement, copies of which had been distributed to the members of the Board subsequent to yesterday's meeting, read as follows:

The issue at stake in the proposed merger of the National Bank of Westchester, White Plains, New York, into The First National City Bank of New York is whether an important city commercial bank should be permitted to expand its services Outwards and within the circumference of a metropolitan area of which its headquarters locality is a component part. In this case, such expansion is permissible under both Federal and State laws, subject to a judgment that the competitive effects of the merger would not result in a tendency to monopoly.

Weighing all factors presented in the supporting memoranda leads to the conclusion that approval of the proposal would not be injurious to the competitive banking situation in Westchester County but, on the contrary, by injecting a widening of banking facilities into the area would improve competitive banking standards that would be in the public interest.

More specifically, the volume of deposits to be absorbed through a merger of the National Bank of Westchester into The First National City Bank is not consequential as related to the deposit totals of the other commercial banks operating in Westchester County, and certainly not as regards the deposit total of The First National City Bank. Westchester County enjoys the services of an adequate number of commercial banks fully capable of maintaining their competitive positions with The First National City Bank, given the assumption of competent and aggressive managements on their parts. In fact, the record

of so-called "corporation bigness" indicates a lessening of competitive virility as size expands, which experience, as applied to the instant merger proposal, suggests that the competitive position of the smaller commercial banking institutions operating in Westchester County should in no Wise suffer competitively from the effects of the proposed merger. The matter of dollar deposit totals as a measure of market power or a trend to monopoly is obviously not a decisive factor in the consideration of this proposed merger. On the contrary, the real question at issue is whether The First National Bank should be permitted to expand its services Within its natural trade area or whether it should be confined everlastingly to the boundaries of New York City proper.

Both in the permissive spirit of the Federal and State laws and because of the practical considerations that have been recited, the balance of evidence is in favor of an approval of the proposed merger as regards competitive factors and all other considerations that are required to be reviewed but which are not a responsibility of the Federal Reserve Board with respect to the instant case. In the light of this reasoning, it is my opinion that the conclusion regarding the proposed merger that appears beginning at the bottom of page 13 of the supporting memorandum should be revised to the following effect:

## V. CONCLUSION

The proposed merger would have very little effect on the competitive situation in Nassau and the five counties comprising New York City. At the present time there is a degree of competition between The First National City Bank and the National Bank of Westchester which would be eliminated by the proposed Merger. However, permitting The First National City Bank to expand into Westchester County via acquisition of the banking Offices now operated by the National Bank of Westchester would not give it a competitive advantage so great as to endanger the continued profitable operations of other Westchester banks. The increase in the size of The First National City Bank as a result of the merger would not be consequential as regards its Over-all competitive position in the commercial banking field or with respect to its competitive position in Westchester County when related to the competitive power of the other commercial banking institutions operating in that area.

Governor Robertson expressed agreement with the approach taken by the Division of Examinations. However, he suggested the addition to the conclusion of language that, in part, warned that the merger might set off a chain reaction that would eliminate all small banks in the Westchester County area.

In response to a question by Governor Shepardson regarding the recent revision of the New York State banking law, it was explained that banks in New York City were now allowed to follow population shifts into the suburbs by establishing branches in certain suburban counties, banks in those counties likewise being allowed to establish branches in the city. However, a bank within the city could not establish a branch in any suburban community that was already served by the head office of a bank.

Governor Shepardson then remarked that to him the problem presented by this case was a difficult one, on which some kind of rationale must be developed. New York State, he noted, had changed its laws to permit the type of transaction contemplated by First National City Bank, the State apparently having concluded that the New York City banks should be allowed to follow their customers to the suburbs. At the same time, it was true that every merger might serve as an incentive for another one.

Chairman Martin asked Mr. Solomon to comment on the intent of the New York State law and on whether it appeared that approval of the proposed First National City merger was likely to be followed by other mergers that

Would eliminate the independent banks in Westchester County. In response, Mr. Solomon expressed the view that certain statements made by former New York State Superintendent of Banks Clark would probably be the best exposition of the intent of the State law. In Mr. Clark's opinion, according to these statements, the law was intended to permit New York City banks to go into outlying areas but not to encourage them to take Over large portions of the banking assets of those areas. On that premise, Mr. Clark had denied the application of Bankers Trust Company in New York City and County Trust Company in Westchester County to form a bank holding company, believing that the most significant measure in that case was the concentration of banking in Westchester County, rather than the total situation in the New York City metropolitan area. On the other hand, Mr. Clark had favored certain applications by New York City banks to establish branches in Westchester County. To Mr. Solomon, the inference of these comments and actions was that Mr. Clark felt the statute was intended to open suburban areas to a slow infusion by New York City banks rather than a rapid saturation.

Mr. Solomon then referred to the application, denied by the Board in 1958, which would have brought together the First National City Bank and County Trust Company under a holding company arrangement, and to the aforementioned application, denied by the State, which would have brought together Bankers Trust Company and County Trust Company under a holding

company arrangement. It had seemed to the Division of Examinations, he said, that those applications bore marked similarities to the present application. Although County Trust was considerably larger than the National Bank of Westchester, to bring a large New York City bank into Westchester County in the strength that any of these applications contemplated might result in a rapid take-over of the County by city banks.

Governor Mills pointed out that the new law in New York provided a two-way street; one suburban bank had already established a branch in the city proper, apparently feeling that it was able to compete with its larger neighbors there, and there had been indications that another suburban bank expected to do likewise.

In the point that Westchester County might become the domicile for four or five New York City banks, to the exclusion of smaller independent banks. It could be argued, he felt, that the language offered for the conclusion by Governor Mills was correct, and on the other hand that the conclusion proposed by the Division of Examinations, with the addition suggested by Governor Robertson, also was correct. On balance, however, he leaned a little toward the position of the Division of Examinations and Governor Robertson.

Governor Balderston stated that he also had found this case  $t_{\text{roublesome}}$ . On the favorable side, it would combine a wholesale with a

retail banking operation. Also, it would permit First National City Bank to follow the population into the suburbs—a wealthy suburb in this Particular case. If the city banks were not permitted to give service locally, they would probably lose some business generated in the outlying communities. On the adverse side, while he would not like to see the Board take a position against size per se, there admittedly were risks attendant upon the growth of very large banking institutions. The possible difficulties in a time of crisis were rather obvious, and in any event banking power inherent in a giant institution was perhaps not to be encouraged.

His arguments in this case, Governor Balderston continued, were so nearly balanced that his conclusion would rest on the rapidity with which a New York bank the size of First National City could grow in a county like Westchester. If the request before the Board were to advise on the desirability of starting a single banking office, which would enhance competition in the community, he would favor it. Here, however, First National City was planning to absorb a \$200 million bank with many branches and with 23.5 per cent of the deposits of individuals, partnerships, and corporations in the County. Such a bank would be considered large in almost any community in the United States. Therefore, looking at the impact of the merger on the rate of expansion of First National City, he would favor an adverse recommendation. Although he recognized that this Position was based on a matter of degree, he believed that when banks

reached the size of First National City they should grow through natural processes and not through mergers.

County were not served by a head office of a bank and therefore were open to establishment of a city bank branch. Mr. Solomon responded that although he could not give definite figures, it was his recollection that about nine communities were served by head offices. However, the county was densely populated and there were a number of cities that were not pre-empted by head offices. Despite the head office protective provision in the law, he did not think it could be said that New York City banks were blocked from entrance into the County. Further, a merger with one of the small County banks would not afford such a large entry into the County as the current proposal.

In further discussion, Chairman Martin recalled the merger application considered by the Board recently in which Citizens Commercial & Savings Bank, Flint, Michigan, had sought to consolidate with a bank in Corunna. The Board had decided adversely, mainly on the principle that a line must be drawn at some point. The same principle applied in the present case, he believed, unless the whole character of the banking structure in New York State was to be changed. This, he recognized, got into the Dhilosophy of where the line should be drawn, and whether the public interest might not be better served if banking services in Westchester

County were provided by offices of a few large New York City banks. All things considered, although he considered Governor Mills' suggested conclusion to be a good statement of one point of view, he would be somewhat happier with a conclusion along the lines of the approach taken by Governor Robertson because he thought that a danger of saturation of Westchester County by New York City banks did exist. Accordingly, he believed there was justification for pointing out that possibility in the report on competitive factors.

Governor Balderston stated that on balance he agreed with that Position; if it were a small bank that was to be taken over, he might feel differently, but the second largest bank in Westchester County was involved.

Governor Shepardson said he had been bothered by the possibility of foreclosing the opportunity for New York City banks to go into the suburbs. If, however, as had been indicated, there were a number of communities where branches could be established, he thought that would be the preferable way for the New York City banks to expand.

Following additional discussion relating to expansion through

Merger as contrasted with the establishment of de novo branches, Chairman

Martin commented that probably the National Bank of Westchester was

enthusiastic about the proposed merger. A bank in its position no doubt

Would reason that it was becoming increasingly difficult to compete and to

make a profit. If a merger of this kind took place, it would be possible to draw on the various facilities of the larger bank, the resulting bank would get new customers that the smaller bank could not have gotten on its own, and at the same time those in the smaller bank would not have to work so hard to compete. There was a question as to whether an effort to perpetuate the unit banking system was not holding back progress and asking for an order that had gone. He did not know the answer to that question, but in this case he thought it would be well to point out the possible end result so that that point of view might be taken into consideration by the Comptroller of the Currency in weighing his decision.

Governor Shepardson stated that he could agree with such an approach. There were arguments on both sides, but he would not disagree.

Accordingly, the report was approved by majority vote, with the conclusion to be stated in the manner suggested by Governor Robertson.

Governor Mills dissented for the reasons given in his statement, as set forth in these minutes. As transmitted to the Comptroller of the Currency, the conclusion of the report read as follows:

The proposed merger would have very little effect on the competitive situation in Nassau and the five counties comprising New York City. However, at the present time there is a significant amount of competition between First National City Bank and National Bank of Westchester which would be eliminated by the Proposed merger. Moreover, permitting First National City Bank to acquire approximately 25 per cent of Westchester County banking offices might well give it a competitive advantage so great as to endanger the continued profitable operations of other Westchester banks. The FNCB would, because of its size, obtain a dominant position, with attending competitive advantages,

strongly adverse to the preservation of effective competition in Westchester County. The merger would eliminate one bank in the area, substituting a New York City bank (\$7 billion of deposits) for the National Bank of Westchester (\$218 million of deposits), and could lead to a chain reaction which would result in other mergers between the remaining Westchester banks and the large New York City banks, thus tending to eliminate all local banks in the area.

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:

	Item No.
Letter to Worthen Bank & Trust Company, Little Rock, Arkansas, approving the establishment of a branch at Asher and University Avenues.	1
Letter to First Bank and Trust Company of South Bend, South Bend, Indiana, approving an extension of time to establish a branch at Lincoln Way East and Twyckenham Drive.	2
Letter to the Federal Reserve Bank of San Francisco regarding a proposed visit of four staff members of the Central Bank of the Philippines.	3
Letter to the Federal Reserve Bank of Richmond approving the payment of salary to an officer assigned to the Charlotte Branch at the rate fixed by the Bank's Board of Directors.	4
Letter to the Federal Reserve Bank of Minneapolis approving the payment of salary to an officer at the rate fixed by the Bank's Board of Directors.	5

Messrs. Hooff and Sprecher then withdrew from the meeting.

Report on competitive factors (Freehold-Bradley Beach, New Jersey).

There had been distributed a draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of The First National Bank of Bradley Beach, Bradley Beach, New Jersey, with The Central Jersey Bank and Trust Company, Freehold, New Jersey.

The report was  $\underline{\text{approved}}$  unanimously for transmission to the Federal  $\underline{\text{Deposit}}$  Insurance Corporation, its conclusion reading as follows:

The Central Jersey Bank serves all of Monmouth County, and therefore competes to some extent with the merging bank for deposits and loans. However, the two institutions do not have offices in the same communities. The offices most nearly in direct competition are the head office of The First National Bank of Bradley Beach and the Allenhurst branch of applicant, three miles north of Bradley Beach. There are intervening offices between the head office and any branch of The Central Jersey Bank and the Bradley Beach bank, and there is considerable disparity in size. The rate of growth enjoyed by The First National Bank of Bradley Beach would indicate it is an effective competitor in the county.

There exists a substantial degree of concentration of banking resources in Monmouth County, with the three largest of the 17 banks in the county operating 36.2 per cent of the 47 banking offices and holding 43.9 per cent of the \$345 million total deposits in the county. Exclusive of the three leading banks, there is no bank in the county having total deposits in excess of \$30 million, and eleven of the banks have total deposits of less than \$20 million each. The Central Jersey Bank, with eight offices and \$57,810,000 total deposits, is the county's largest. The proposed merger, by intensifying The Central Jersey Bank's area coverage and enlarging its resources, would somewhat increase the concentration of area resources, and would tend to move the bank in the direction of dominancy.

Proposed activity of a Board-appointed branch director. A memorandum dated June 21, 1961, from Mr. Sherman had been distributed in connection With a question that had been raised by the individual concerned (Mr. G. L. Bach, Dean of the Graduate School of Industrial Administration, Carnegie Institute of Technology) regarding the Board's attitude toward a possible affiliation by a Board-appointed director of a Reserve Bank Branch. In addition to his full-time occupation, Mr. Bach occasionally served as an economic consultant. He had now been asked whether he would meet periodically With some of the officers and/or directors of a commercial bank to discuss the general business outlook. He would be paid on the basis customary for his consultant work; he would not be an officer, director, or employee of the bank; he would not be listed in advertisements or publications as a consultant to the bank; and he would have no involvement in internal affairs of the bank. Mr. Bach had indicated to Mr. Sherman that he would be glad to enter into this arrangement, but he would not wish to do so if it would raise a question on the part of the Board.

The Board's branch regulations, it was noted, provide that "The directors appointed by the Board of Governors shall be persons who are actively engaged in commerce, agriculture, some other industrial pursuit, or the practice of a profession, who are not primarily engaged in banking and preferably are not directors of banks, although they may be stockholders." Thus, the regulations would not specifically preclude the

<sup>\*</sup> Director at Pittsburgh Branch.

kind of consulting arrangement envisaged. However, the matter was being brought to the Board's attention in order to determine whether the Board Would wish to express any point of view that would be helpful to Mr. Bach.

In discussion of the matter, the view was expressed that it would be undesirable as a matter of general principle to have a situation arise Where a Federal Reserve Bank or branch director would capitalize on his affiliation with the System to his own advantage or that of a bank to Which he might furnish advice. A director, it was pointed out, might become a consultant to a series of banks, with the advice perhaps extending into the area of investment counsel, and there might be an inclination on the part of the banks served to advertise the consultant's connection with the System. Although, from the facts recited, such circumstances were not Present in this case, they might occur in other cases of a somewhat similar character. The discussion, however, also included comments concerning the importance of attracting capable individuals to serve as Reserve Bank head Office and branch directors, which suggested the inadvisability of imposing too many restrictions on the activities of such persons. Individuals of the desired character, it was suggested, could be depended upon to respect confidences, and further there might be a question whether the briefing at a typical branch directors' meeting was of such nature as to provide any consequential material that would not already be at the disposal of an economic consultant.

The consensus reached, after weighing these various considerations, was that although no specific regulation would preclude acceptance by Mr. Bach of the consultant arrangement in question, the Board had some doubt as to the wisdom of his entering into the arrangement. It was <u>understood</u> that Mr. Bach would be advised informally along these lines.

The meeting then adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals, Governor Shepardson today approved on behalf of the Board the following actions relating to the Board's staff:

## Salary increase

\$6,315 to \$6,510 per annum, effective June 25, 1961.

# Advance of sick leave

Frances Skehan, Statistical Assistant, Division of Research and Statistics, an advance of sick leave beginning June 2 ( $2\frac{1}{2}$  hours) and extending through 7, 1961.

Secretary



DE THE

### FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 1 6/22/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 22, 1961

Board of Directors, Worthen Bank & Trust Company, Little Rock, Arkansas.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of St. Louis, the Board of Governors of the Federal Reserve System approves the establishment by Worthen Bank & Trust Company, Little Rock, Arkansas, of a branch at the northwest corner of the intersection of Asher and University Avenues, Little Rock, Arkansas, 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.



OF THE

## FEDERAL RESERVE SYSTEM Item No. 2

WASHINGTON 25, D. C.

6/22/61

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

June 22, 1961

Board of Directors, First Bank and Trust Company of South Bend, South Bend, Indiana.

Gentlemen:

Pursuant to your request, the Board of Governors of the Federal Reserve System extends the time within Which First Bank and Trust Company of South Bend may establish a branch at the corner of Lincoln Way East and Twyckenham Drive, in South Bend, to January 27, 1962, under the authorization contained in the Board's letter of July 27, 1960.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael, Assistant Secretary.

OF THE

## FEDERAL RESERVE SYSTEM

Item No. 3 6/22/61

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE

June 22,1961

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

Dear Mr. Swan:

This refers to your letter of May 31, 1961, regarding the proposed visit to your Bank of four members of the staff of the Central Bank of the Philippines for the purpose of studying the operations of your Bank Examination and Discount and Credit Departments.

The Board would not object to your arranging with the Central Bank of the Philippines for the visits indicated, providing you feel the presence of these visitors for the stated periods of time would not be unduly burdensome and would be justified by the benefits the trainees might be expected to derive therefrom.

The extent to which the records and practices in your Bank Examination and Discount and Credit Departments might be made known to the visitors would be largely a matter for your discretion. However, no notes embodying details appearing in actual records should be taken by the visitors, and samples of examination and other reports should be used to the extent practicable as a means of illustrating the forms and procedures. No objection is seen to permitting these foreign trainees to observe an examination in the field, subject, as you indicate, to prior approval by the bank to be examined.

Sincerely yours,

(Signed) Merritt Sherman

Merritt Sherman, Secretary.



OF THE

#### FEDERAL RESERVE SYSTEM Item No. 4

WASHINGTON 25, D. C.

6/22/61

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

June 22, 1961

### CONFIDENTIAL (FR)

Mr. Alonzo G. Decker, Jr., Chairman of the Board, Federal Reserve Bank of Richmond, Richmond 13, Virginia.

Dear Mr. Decker:

The Board of Governors approves the payment of salary to Mr. Robert R. Fentress as Assistant Vice President of the Federal Reserve Bank of Richmond, assigned to the Charlotte Branch, at the rate of \$13,000 per annum, for the period July 1 through December 31, 1961. According to your letter of June 8, this is the rate which has been fixed by your Board of Directors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman, Secretary.



OF THE

### FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 5 6/22/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 22, 1961

## CONFIDENTIAL (FR)

Mr. Frederick L. Deming, President, Federal Reserve Bank of Minneapolis, Minneapolis 2, Minnesota.

Dear Mr. Deming:

The Board of Governors approves the payment of salary to Mr. John P. Olin as Assistant Vice President of the Federal Reserve Bank of Minneapolis, at the rate of \$10,500 per annum for the period June 8 through December 31, 1961. It is noted from your letter of June 8 that Mr. Olin will also continue as Assistant Secretary.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman, Secretary.