

09
6/61

Minutes for July 6, 1961

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin	<u></u>
Gov. Mills	<u></u>
Gov. Robertson	<u></u>
Gov. Balderston	<u></u>
Gov. Shepardson	<u></u>
Gov. King	<u></u>

Minutes of the Board of Governors of the Federal Reserve System
on Thursday, July 6, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
Mr. Shay, Legislative Counsel
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Masters, Associate Director, Division of
Examinations
Mr. Hexter, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Koch, Adviser, Division of Research and
Statistics
Mr. Furth, Adviser, Division of International
Finance
Mr. Sammons, Adviser, Division of International
Finance
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Benner, Assistant Director, Division of
Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Miss Dingle, Chief, Consumer Credit and Finances
Section, Division of Research and Statistics
Mr. Pawley, Economist, Division of Research and
Statistics

Discount rates. The establishment without change by the Federal Reserve Bank of Minneapolis on July 5, 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.

7/6/61

-2-

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

	<u>Item No.</u>
Letter to The Brooks Bank and Trust Company, Torrington, Connecticut, approving the establishment of a branch at 1313 East Main Street.	1
Letter to The Bank of Orange County, Goshen, New York, granting the application to exercise fiduciary powers submitted by it on behalf of The National Bank of Orange and Ulster Counties.	2
Letter to Chemung Canal Trust Company, Elmira, New York, approving the establishment of a branch at 602 South Main Street, Village of Horseheads, Chemung County.	3
Letter to The Bank of Wood County Company, Bowling Green, Ohio, approving the establishment of a branch between East Court and East Wooster Streets at the New York Central Railway.	4
Letter to The Central Trust Company, Cincinnati, Ohio, approving the establishment of a branch in the Eastern Hills Plaza shopping center on Paxton Avenue.	5
Letter to Ormond Beach National Bank, Ormond Beach, Florida, approving its application for fiduciary powers.	6
Letter to The First National Bank in Owenton, Owenton, Kentucky, approving its application for fiduciary powers.	7
Letter to The Juniata Valley National Bank of Mifflintown, Mifflintown, Pennsylvania, approving its application for fiduciary powers, effective upon an increase in the bank's capital stock to not less than \$150,000.	8

7/6/61

-3-

Item No.

Letter to The Farmers and Merchants Bank, Boswell,
Indiana, granting its request for permission to
exercise fiduciary powers.

9

In connection with Items 8 and 9, Mr. Masters reviewed, at the request of Governor Robertson, the reasons that had influenced the Division of Examinations toward a favorable recommendation in each instance. Among other things, he mentioned satisfactory management, adequate capitalization, and the availability of reputable legal counsel. Also, there was evidence of some need for trust services in the communities concerned, even though trust powers, if available, might not attract any significant volume of business. In summary, unless the Board wanted to take a generally restrictive position in respect to applications for fiduciary powers filed by banks of small size, he felt that a judgment on such applications would have to rest primarily on the demonstrated capacity of the management in the field of commercial banking. Rarely was there a case where a small applicant bank had personnel with substantial experience in the field of trust administration, but in his opinion that would be asking too much. If the applicant could show evidence of ability to run a sound bank over a period of years, and if satisfactory legal counsel was available, it might reasonably be assumed, he thought, that the limited volume of trust business likely to be received would be given proper attention.

7/6/61

-4-

Governor Robertson expressed the opinion that these two cases fell squarely within the category of applications where it was at best a guess as to whether the applicant banks would have the competence to handle satisfactorily the trust business they might generate, particularly if estates of any degree of complexity were involved. In the absence of a showing of real need, he considered it a mistake to grant the right to exercise fiduciary powers under such circumstances, either to national banks or to State member banks. In a number of instances, he noted, the right to exercise trust powers was sought primarily for advertising purposes and for competitive reasons rather than because of any actual need for such services. Since these two applications were not dissimilar in character from others that the Board had approved from time to time over a period of years, he would not oppose them, but for the reasons indicated he questioned the advisability of granting such applications.

In reply to a question by Governor Shepardson, Mr. Masters stated that the record of smaller banks in exercising trust powers had been quite good. He could not recall a case where such a bank had been found derelict in the administration of trust business. Some banks, of course, generated little, if any, such business. Governor Shepardson then expressed the view that the favorable record cited by Mr. Masters constituted a rather persuasive argument.

Application of First National Bank of Thompsonville. There had been circulated to the Board a file relating to the application of the

7/6/61

-5-

First National Bank of Thompsonville, Thompsonville, Connecticut, for authority to exercise fiduciary powers. The Federal Reserve Bank of Boston had recommended favorably, but the Division of Examinations recommended adversely.

At the Board's request, Mr. Masters recited the reasons that had led the Division of Examinations to recommend denial of the application. These included the advanced age of the chief executive officer, the absence of strong supporting personnel, certain tendencies in the administration of the bank noted at recent examinations, and the availability of fiduciary services in the nearby city of Hartford.

It was then agreed that a check should be made with the Federal Reserve Bank of Boston before a final decision was reached in order to determine whether that Bank wished to submit any additional information or views in support of its recommendation.

Report on competitive factors (Cambridge, Ohio). 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 Citizens Savings Bank Company, Cambridge, Ohio, by The Central National Bank at Cambridge, Cambridge, Ohio, had been distributed under date of June 30, 1961.

As drafted, the conclusion of the report included reference to the acquisition of control of the selling bank early in 1961 by the president of the purchasing bank, which circumstance had eliminated

7/6/61

-6-

effective competition between the two institutions. It was noted that this elimination of competition was not necessarily permanent as the controlling interest might conceivably be sold. However, consummation of the proposed merger would eliminate whatever potential competition might exist between the two banks.

In reply to a question, Mr. Leavitt commented that the situation with respect to common ownership of the two banks had been stressed in the conclusion, in addition to being mentioned in the body of the report, because the acquisition of controlling interest in the selling bank had occurred subsequent to the enactment of the Bank Merger Act. Such acquisition having been accomplished, a proposal to merge the two banks might appear more favorable when viewed from the standpoint of the competitive factor. Therefore, this could be regarded as a method of circumventing the bank merger legislation.

Ensuing discussion of this point resulted in a suggestion by Governor Robertson that the conclusion be changed to read as follows:

The proposed purchase of assets and assumption of liabilities of The Citizens Savings Bank Company, Cambridge, Ohio, by The Central National Bank at Cambridge, Cambridge, Ohio, would appear to have little effect on competition outside the immediate Cambridge area. There is now little competition between these two banks; however, consummation of the proposed transaction will eliminate whatever potential competition might exist between them.

There being agreement with this suggestion, the report was approved unanimously in such form for transmittal to the Comptroller of the Currency.

7/6/61

-7-

Messrs. Hooff and Leavitt then withdrew from the meeting.

Request of First National Bank of Atlanta (Item No. 10). There had been distributed to the Board copies of a memorandum from the Division of Examinations relating to the request of The First National Bank of Atlanta, Atlanta, Georgia, for permission to accept drafts or bills of exchange drawn for the purpose of furnishing dollar exchange. The recommendations of the Atlanta Reserve Bank and the Division of Examinations (Review Examiner Poundstone) were favorable. For various reasons, however, Assistant Director Goodman expressed reluctance to recommend that any further authorizations of this kind be granted, except in the event of a demonstrated need, pending completion of the current review and revision of Regulation C, Acceptance by Member Banks of Drafts and Bills of Exchange. Accordingly, alternative drafts of letter to the applicant bank were submitted, one of which would grant the application and the other of which would indicate that the Board had deferred action pending completion of the review of Regulation C.

At the request of the Board, Mr. Goodman summarized the reasons for the reservations he had expressed in the memorandum, following which Mr. Hexter and Governor Shepardson commented further on problems involved in the study of Regulation C and the underlying law. Agreement then was expressed with a suggestion that the current application be acted upon favorably, on the basis that such action would be consistent with actions taken on similar applications in the past, subject to the understanding

7/6/61

-8-

that staff work would continue on the current study of Regulation C with a view to bringing the matter to a conclusion as expeditiously as possible.

Accordingly, the request of The First National Bank of Atlanta was approved unanimously. A copy of the letter sent to the bank pursuant to this action is attached as Item No. 10.

Messrs. Furth, Sammons, Benner, and Goodman then withdrew from the meeting.

Report on S. 1740 (Item No. 11). Pursuant to the understanding at the meeting yesterday, there had been distributed to the Board a revised draft of letter to Chairman Robertson of the Senate Banking and Currency Committee reporting on S. 1740, a bill to require the disclosure of finance charges in connection with extensions of credit.

Mr. Hexter reported a telephone conversation this morning with a representative of the Budget Bureau who indicated that the Bureau was preparing a report to the Committee concerning the position of the Administration with respect to the proposed legislation. It appeared possible, according to the informant, that the report would be favorable to enactment of the legislation, but with the recommendation that the Federal Trade Commission, rather than the Board of Governors, be named as the administering agency. It was indicated that before the Bureau informed the Committee of the Administration's position, it would be interested in having advice as to the nature of the report made by the Board.

7/6/61


-9-

Discussion then turned to the revised draft of letter to the Banking and Currency Committee, and it developed that the reaction of the members of the Board was favorable. Accordingly, after certain minor changes had been agreed upon, unanimous approval was given to a letter in the form attached as Item No. 11, with the understanding that advice concerning the content of the letter would be given by telephone to the Bureau of the Budget and that, in accordance with the usual procedure, a copy of the letter would be sent to the Bureau.

Messrs. Shay, Masters, and Pawley then withdrew from the meeting, as did Miss Dingle.

Reports on recent trips. Mr. Young commented informally on his recent trip to Paris to attend a meeting of a working group of the Economic Policy Committee of the Organization for European Economic Cooperation, following which Governor King, who had attended the annual meeting of the Bank for International Settlements and visited a number of the European central banks, related various impressions that he had gained during the course of his trip.

The meeting then adjourned.


Secretary

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

Item No. 1
7/6/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 6, 1961

Board of Directors,
The Brooks Bank and Trust Company,
Torrington, Connecticut.

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 an in-town branch at 1313 East Main Street, by The Brooks Bank and Trust Company, Torrington, Connecticut, 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. 2
7/6/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 6, 1961

Board of Directors,
The Bank of Orange County,
Goshen, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to the application for permission to exercise fiduciary powers made by The Bank of Orange County on behalf of The National Bank of Orange and Ulster Counties, Goshen, New York, the national bank into which it is to be converted, and grants such national bank authority, effective if and when the proposed conversion is consummated, to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of New York. The exercise of such rights shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

After the conversion becomes effective and the Comptroller of the Currency authorizes the national bank to commence business, you are requested to have the board of directors of The National Bank of Orange and Ulster Counties adopt a resolution ratifying your application for permission to exercise fiduciary powers, and a certified copy of the resolution so adopted should be forwarded to the Federal Reserve Bank of New York for transmittal to the Board for its records. When a copy of such resolution has been received by the Board, a formal certificate indicating the fiduciary powers that the national bank is authorized to exercise will be forwarded.

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
7/6/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 6, 1961



Board of Directors,
Chemung Canal Trust Company,
Elmira, 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 at 602 South Main Street, Village of Horseheads, Chemung County, New York, by Chemung Canal 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. 4
7/6/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 6, 1961

Board of Directors,
The Bank of Wood County Company,
Bowling Green, Ohio.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System approves the establishment of an in-town branch between East Court and East Wooster Streets at the New York Central Railway, by The Bank of Wood County 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. 5
7/6/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 6, 1961

Board of Directors,
The Central Trust Company,
Cincinnati, Ohio.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System approves the establishment of a branch in the Eastern Hills Plaza shopping center on Paxton Avenue, south of Oakley Park and Athletic Playfield, Cincinnati, Ohio, by The Central 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. 6
7/6/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 6, 1961

Board of Directors,
Ormond Beach National Bank,
Ormond Beach, Florida.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants Ormond Beach National Bank authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Florida. The exercise of such rights shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A formal certificate indicating the fiduciary powers that your bank is now authorized to exercise will be forwarded in due course.

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. 7
7/6/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 6, 1961

Board of Directors,
The First National Bank in Owenton,
Owenton, Kentucky.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants The First National Bank in Owenton authority to act, when not in contravention of State or local law, as trustee for cemetery perpetual care funds, executor, and administrator. The exercise of such rights shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

A certificate covering such authorization is enclosed.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Enclosure

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

Item No. 8
7/6/61



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 6, 1961

Board of Directors,
The Juniata Valley National
Bank of Mifflintown,
Mifflintown, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and, effective upon an increase in the bank's capital stock to not less than \$150,000, grants The Juniata Valley National Bank of Mifflintown authority to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of Pennsylvania. The exercise of such rights shall be subject to the provisions of Section 11(k) of the Federal Reserve Act and Regulation F of the Board of Governors of the Federal Reserve System.

When advice is received from the Office of the Comptroller of the Currency that the capital stock of The Juniata Valley National Bank of Mifflintown has been increased to not less than \$150,000, the minimum capital required by the laws of Pennsylvania for the exercise of trust powers by a bank and trust company located in a borough or township with a population not exceeding 6,000 persons, the Board of Governors will issue and forward a formal certificate evidencing the bank's authority to exercise fiduciary powers.

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
7/6/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 6, 1961



Board of Directors,
The Farmers and Merchants Bank,
Boswell, Indiana.

Gentlemen:

This refers to your request for permission, under applicable provisions of your condition of membership numbered 1, to exercise fiduciary powers.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System grants permission to The Farmers and Merchants Bank to exercise the fiduciary powers now or hereafter authorized by its charter and the laws of the State of Indiana.

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. 10
7/6/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 6, 1961.

The First National Bank of Atlanta,
Atlanta 2, Georgia.

Gentlemen:

The Board of Governors of the Federal Reserve System authorizes your Bank, pursuant to the provisions of Section 13 of the Federal Reserve Act, to accept drafts or bills of exchange for the purpose of furnishing dollar exchange as required by the usages of trade in such countries, dependencies, or insular possessions of the United States as may have been designated by the Board of Governors, subject to the provisions of the Federal Reserve Act and the Board's Regulation C issued pursuant thereto. Section 13 of the Federal Reserve Act provides that no member bank shall accept such drafts or bills in an amount exceeding at any one time the aggregate of one-half of its paid-up and unimpaired capital and surplus.

The right is reserved to terminate this authorization upon 90 days' notice to your Bank as provided in the Regulation.

Enclosed is a list of the countries with respect to which the Board of Governors has found that the usages of trade require the furnishing of dollar exchange. The Board of Governors may at any time, after 90 days' published notice, remove from such list the name of any country, dependency, or insular possession contained therein.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Enclosures.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 11
7/6/61

OFFICE OF THE CHAIRMAN

July 6, 1961

The Honorable A. Willis Robertson,
Chairman,
Committee on Banking and Currency,
United States Senate,
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your request of April 28, 1961, for a report on S. 1740, a bill "To assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extensions of credit."

The bill would require a person engaged in the extension of credit to furnish to the person to whom credit is extended, prior to the consummation of the transaction, a statement in writing setting forth, to the extent applicable and in accordance with rules and regulations prescribed by the Board of Governors of the Federal Reserve System, among other items, (1) the finance charge expressed in dollars and cents, and (2) the percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate on the outstanding unpaid balance of the obligation.

As stated in our report on S. 2755, a similar bill introduced in the Congress last year, the Board is in full accord with the objective of requiring lenders and vendors to tell the truth about interest rates and finance charges. The regulation of trade practices in stating credit charges, where necessary to prevent deception of borrowers, surely is a desirable social objective.

We also pointed out, in our report last year, that extension of the Board's duties into the field of trade practices as contemplated by the bill would be foreign to the Board's present responsibilities, which are principally in the field of monetary and credit regulation through the banking system. We reaffirm the position we took last year that the administration of such legislation would not constitute an appropriate activity for the Federal Reserve System.

Regarding the effect of disclosure of finance charges in preventing excessive and untimely use of credit by consumers, the Board's studies indicate that moderation of the cyclical expansion and

The Honorable A. Willis Robertson -2-

contraction of consumer instalment credit reflects in large part changes in the availability of credit to consumer lenders. Such changes in availability are responsive to general monetary policy and are reflected primarily in the application of more or less restrictive standards or terms rather than in higher or lower finance charges.

Finance charges on consumer credit have not changed greatly over the course of recent business cycles, and consumer borrowers have not appeared particularly responsive to such variations as have taken place. This is not to say that greater consumer awareness of interest rates may not influence the over-all pattern of their spending, but this effect would seem to be more in the nature of a long-run rather than a cyclical change. Greater consumer awareness of interest rates charged by various lenders may also, of course, enable them to make a more rational choice among lenders.

In sum, the Board endorses the objective of requiring adequate disclosure of finance charges, but it feels that it would not be appropriate for the monetary authority to administer what would be, essentially, a trade practices statute.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.