

Minutes for July 27, 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

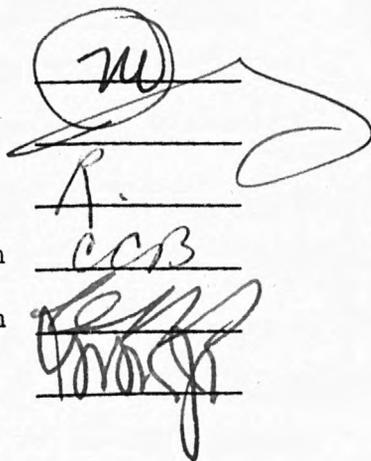
Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King



Minutes of the Board of Governors of the Federal Reserve System  
 on Thursday, July 27, 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 1/

Mr. Sherman, Secretary  
 Mr. Kenyon, Assistant Secretary  
 Mr. Hackley, General Counsel  
 Mr. Farrell, Director, Division of Bank Operations  
 Mr. Solomon, Director, Division of Examinations  
 Mr. Harris, Coordinator of Defense Planning  
 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. Landry, Assistant to the Secretary  
 Mr. Achor, Review Examiner, Division of Examinations  
 Mr. McClintock, Review Examiner, Division of  
 Examinations  
 Mr. Thompson, Review Examiner, Division of  
 Examinations  
 Mr. White, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Minneapolis on July 26, 1961, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

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

1/ Withdrew from meeting at point indicated in minutes.

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	<u>Item No.</u>
Letter to Cravath, Swaine & Moore, New York, New York, interposing no objection to the addition of a paragraph to the public notice of proposed merger of Long Island Trust Company with Chemical Bank New York Trust Company, with respect to the continued operation of certain branches of Long Island Trust Company located in Suffolk County.	1
Letter to Webster Groves Trust Company, Webster Groves, Missouri, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	2
Letter to the Federal Deposit Insurance Corporation regarding the application of Webster Groves Trust Company, Webster Groves, Missouri, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	3
Letter to Gruver State Bank, Gruver, Texas, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	4
Letter to the Comptroller of the Currency recommending favorably with respect to an application to organize a national bank at Vernon, Connecticut, provided arrangements are made for satisfactory executive management.	5
Letter to the Federal Reserve Bank of New York interposing no objection to the service of an officer of the Bank in the Office of the Under Secretary of the Treasury for Monetary Affairs for a period of time.	6
Letter to the Federal Reserve Bank of Philadelphia approving a revision of the minimum of Grade 2 of the employees' salary structure.	7
Letter to the Presidents of all Federal Reserve Banks regarding the distribution of the revised edition of the Federal Reserve Act.	8

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	<u>Item No.</u>
Letter to the Federal Reserve Bank of Chicago approving the payment of salaries to certain officers at rates fixed by the Board of Directors.	9
Letter to Bristol County Trust Company, Taunton, Massachusetts, approving the establishment of a branch in the Bay Colony Shopping Center, Town of Raynham.	10
Letter to Harvard Trust Company, Cambridge, Massachusetts, approving the establishment of a branch at 678 Massachusetts Avenue.	11
Letter to Liberty Bank & Trust Company, Buffalo, New York, approving the establishment of a branch at 347-349 Central Avenue, Village of Fredonia, Town of Pomfret.	12
Letter to Manufacturers and Traders Trust Company, Buffalo, New York, approving the establishment of a branch in the Aurora Village Shopping Center, Village of East Aurora.	13
Letter to Manufacturers Trust Company, New York, New York, approving the establishment of a limited purpose branch at 2086 West 5th Street, Brooklyn.	14
Letter to The Peru Trust Company, Peru, Indiana, approving the establishment of a branch at Bunker Hill Air Force Base, Miami County.	15
Letter to Bank of Reynolds, Reynolds, Indiana, approving the establishment of a branch in Chalmers, provided the bank's common stock is increased to meet statutory requirements.	16
Letter to United California Bank, Los Angeles, California, approving the establishment of a branch in Salinas, Monterey County.	17

With respect to Item No. 8, Governor Shepardson noted that the procedure to be followed contemplated sending one copy of the revised

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edition of the Federal Reserve Act to each member bank without charge. He pointed out that a similar distribution had recently been made of the published interpretations of the Board of Governors.

Messrs. Molony and Fauver, Assistants to the Board, and Sprecher, Assistant Director, Division of Personnel Administration, joined the meeting at this point.

Application of Manufacturers Trust Company. Copies had been distributed of a memorandum dated July 14, 1961, from the Division of Examinations recommending disapproval of an application by Manufacturers Trust Company, New York City, for permission to merge with The Hanover Bank, New York City, under the charter of the applicant and title of Manufacturers Hanover Trust Company. The recommendation of the Federal Reserve Bank of New York was favorable to the proposed merger, which the New York State Banking Department had approved on May 23, 1961.

There had also been distributed, under date of July 24, 1961, copies of a memorandum from the Legal Division expressing the view that either approval or disapproval of the merger would be sustained by the courts as a reasonable exercise of the Board's discretion. The memorandum recommended, however, that if the Board should be inclined toward an adverse decision a letter be sent to the applicant indicating points or areas as to which the Board had question and affording the applicant an opportunity to submit further views or comments within a specified period of time. This would be in accordance with a procedure recommended

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by the Legal Division in its memorandum of May 26, 1961, with respect to procedural questions relating to merger and holding company applications. The July 24 memorandum also recommended that a copy of any such letter to applicant be furnished the New York Reserve Bank with an indication that the Board would consider any further comments the Reserve Bank might wish to offer.

The recommended procedure was endorsed in a memorandum from the Division of Examinations dated July 25, 1961. The Division recommended, further, that the procedure be followed in the case of any other merger or holding company application (unless a public hearing had been held) where the Board was inclined toward an adverse decision.

At the request of the Board, Mr. Solomon reviewed the factors, as set forth in the July 14 memorandum, that had led the Division of Examinations to recommend unfavorably on the merger application. He concluded, however, with the comment that the Division concurred in the procedural recommendation contained in the Legal Division's memorandum of July 24. Thus, should the Board be inclined not to approve the application, a letter would be sent to Manufacturers Trust inviting the submission of further comments, orally if desired, before a decision was reached.

Speaking for the Legal Division, Mr. Hackley said the application at hand presented such a close case that although an adverse decision would probably be supported in the event of judicial review the same

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could be said for a favorable decision. In the circumstances, he said, the Division proposed adoption, in this and similar future cases, of the procedure mentioned by Mr. Solomon, which would be in accordance with recommendations in the Legal Division's memorandum of May 26, 1961, with respect to procedural questions relating to merger and holding company applications. In fact, he noted, the adoption of such a procedure would automatically dispose of certain other questions raised in that memorandum. The letter to an applicant, he pointed out, would not indicate that the Board might deny the application. Rather, it would suggest, as specifically as possible, the points on which the Board had questions and afford the applicant an opportunity to submit further facts or arguments within a specified period of time. The Reserve Bank concerned would be afforded a similar opportunity.

Governor Mills said that the tone of the discussion and the suggestion regarding an adverse decision left him with the impression that the case was being prejudged without having been heard by the Board. His own position was that the application should be approved, for the reasons set forth in the following statement, which he then read:

The key points for consideration in the proposed merger are whether its effects

(1) would produce a commercial banking institution controlling financial resources of a size and extent that would nationally be contrary to the public interest and the preservation of competition in the field of banking; and

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(2) would result in the concentration of commercial banking resources under the control of what would be the five largest commercial banks in the City of New York that would be contrary to the public interest and the preservation of competition in the field of banking.

Point (1). The resulting Manufacturers Trust Company coming out of the proposed merger would become the third bank in size in New York City in point of deposits available for employment. Size of deposits is not, however, the sole criterion on which to analyze the competitive effects of the proposed merger. Each of the banks that is a party to the proposal has developed quite different customer clienteles, the composition of which, except as to the elimination of one alternative source of credit available to "national type" borrowing customers, is not looked upon as having any adverse competitive significance. The alternative avenues of credit open to "national type" borrowing concerns assure them adequate credit resources not only in New York City but in other important financial centers throughout the United States. Under these circumstances, the proposed merger would not impair the availability of sources of credit to existing or potential borrowers of any size. On the contrary, the augmented capital resources that would be produced by the merger would insure a greater availability of credit to borrowers whose financial responsibility justified substantial credit accommodation.

Combining the deposit and capital resources of the Manufacturers Trust Company as a retail bank with those of The Hanover Bank as a wholesale bank would, in effect, spread and diversify the credit risks of the merged bank over a wider resource spectrum at the same time that a unified control over the disposition of the total deposits of the merged bank would allow them to be better brought to bear for constructive service at either the retail or the wholesale level in accordance with the varied needs of the merged bank's customers. Therefore, viewed at either a retail or a wholesale level of operation, the proposal would stand to improve the merged bank's scope of national service at the same time that its ability to provide banking facilities and supply banking services at the retail level would be improved through the economies that accompany the unification and application of a large pool of banking resources, the income from which penetrates and inures to the benefit of all

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choosing to make use of its services. Where, as in this case, the problems of banking competition would be resolved through approving the merger on the side of relative equals, adequate competition is assured among strong banking entities located both inside and outside of New York City.

Point (2). The resulting Manufacturers Trust Company, as the third largest commercial bank in New York City, would also be a factor in the concentration of commercial banking resources within that group. As cited above, however, competition would exist among relative equals, all of whom, in enjoying the economies of centralized mass operations, would be under the necessity of placing the benefits of such operations at the disposal of their clientele, both in respect to deposit and credit conveniences and services. In the light of recent years' developments, a wholesale bank, such as The Hanover Bank, if denied the right to merge with the Manufacturers Trust Company, as a retail bank, would be left at a disadvantage that could not be readily overcome and which would be contrary to the best interests of the New York City financial community. For five commercial banks to represent a large percentage of the total commercial banking resources in New York City is not inconsistent with the size of that community as a national and world financial center. That fact carries particular significance in the light of the far-flung services that these banks are called upon to provide, both locally, in all states of the United States, and in foreign countries, and which make a concentration and maneuverability of banking resources a national asset. Capable supervision on the part of bank supervisory authorities and their demands for the exacting observance of all statutes and regulations designed to prevent monopolistic practices through collusion or otherwise should be counted upon as adequate safeguards against any abuse of the financial privileges so largely gathered into the hands of only five commercial banking sources.

Conclusion. The proposed merger should be approved as being consistent with factor 5 in paragraph (c) of section 3 of the Bank Holding Company Act of 1956.

Chairman Martin said that he did not think the Board should act on the application today. Personally, he added, he was not prepared to

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vote; the nature of this case was such that he would like to hear what the applicant had to say on a number of points. He was not trying to slant the matter one way or the other in approaching the question of an oral presentation. The question was simply whether or not such a presentation should be held.

Governor Mills commented that he would regard such a procedure as putting the Board in the position of indicating that its resources for obtaining information through its staff, the Federal Reserve Banks, or otherwise were not adequate. As he saw it, this would be an indication of inability on the part of the Board to perform the duties it was called upon to fulfill.

Chairman Martin replied that he would not agree. The nature of this case was such that judgment was required, and there were a number of questions that he would like to ask. The Division of Examinations had done a good job in presenting the case, but judgment values might vary considerably. After referring to some of the difficulties that he found in the case, the Chairman repeated that he was not prepared to act today and said that he felt the Board should have more time to consider the matter. As between deferring the matter for a vote at some later time or holding oral argument, he felt there were advantages in the latter procedure from the Board's point of view and also from the public relations standpoint. If the application should be denied, he thought it likely that the case would go to court, and it would seem desirable to have the Board's record as complete as possible.

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Governor Robertson said he had concluded that the procedure recommended by the Legal Division was sound and would be appropriate in those cases where there was an inclination to disapprove. In cases where it was apparent that the Board intended to approve, he felt that the oral presentation could be foregone. Therefore, it would seem necessary for the Board to have some discussion of each case to determine whether there were enough feelings of doubt to warrant inviting an oral presentation. Subject to this comment, he felt that the suggested procedure would be desirable. It would provide information desired by members of the Board before a decision was reached, and it would tend against reconsideration of cases after the Board's decision had been announced.

With respect to the instant application, Governor Robertson said his inclination was to disapprove. He agreed with the Division of Examinations that there was substantial competition between the two banks. If so, according to the statute it would be necessary to find that other factors were sufficiently favorable to conclude that the transaction would be in the public interest despite the elimination of competition. In this case, he had not been able to find those sufficiently favorable factors. Accordingly, he would favor providing the interested parties an opportunity to appear before the Board. Should that course be followed, he would not indicate to the applicant that an unfavorable decision might be in prospect. Instead, he would

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merely indicate that there were certain points on which the Board had questions and on which it would be glad to hear the applicant.

Mr. Hackley stated at this point, in the interest of clarification, that the Legal Division's recommendation was not intended to suggest that the Board would go back to the applicant for more information, for there was a wealth of information already at hand. If more information was needed in any particular case, then a public hearing might be desirable. Rather, the Legal Division was thinking in terms of providing the applicant an opportunity to present further arguments and views that the Board might like to have before it in exercising a judgment under the law based on the available information. In proposing the procedure, the Legal Division had not meant to suggest that an application would be prejudged in any sense. On the contrary, the Division had in mind that an inclination to deny might be influenced or changed as the result of hearing further arguments by the applicant.

Chairman Martin then stated, also by way of clarification, that it was not his view that the Board should invite an oral presentation in every case. However, there were a number of cases, of which this one was an example, where there were sufficient doubts as to the course to be followed that to him, at least, an oral presentation would be valuable. In this case, he would be glad to hear what the parties at interest had to say on several points before passing judgment. As he had said before, he had no position in either direction at the moment,

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but he had a lot of questions. Such being the case, it seemed to him that it would make good sense to arrange an oral presentation in order to hear the applicant's point of view.

Governor Shepardson said that his thinking was close to that of Chairman Martin. On this specific case, he found himself about in the same position as the Chairman; he had doubts on both sides of the question. He was hardly prepared to take a position at this time because there were some questions on which he would like further information in terms of the views of the parties at interest. With the wealth of factual data at hand, there was no apparent need for more such data. However, on close cases where doubts existed, he thought the Board would put itself in a disadvantageous position if it went ahead, possibly on a split vote, and then found itself confronted with an appeal for reconsideration or perhaps a court case. If in such a case the Board had had the benefit of an oral presentation, it might possibly have resolved the matter in a different way.

In order that the oral presentations might be as constructive and beneficial as possible, Governor Shepardson suggested developing questions on which the members of the Board had doubts, so that the applicant might be informed of them and could devote its time to dealing with those points.

Governor King said that he could take a position on the case today if necessary, but that he would prefer to have a longer time for

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consideration of the matter. In general, in cases where there were doubts he thought it would be desirable to arrange for oral presentation. If such a presentation was to be held, he felt it would be advisable to indicate to the parties at interest some of the points of concern, without going too far into the Board members' positions.

There followed further exploration of the procedure that would be contemplated in implementation of the Legal Division's recommendation, during which Mr. Hackley said the Division would have in mind affording the applicant, in cases of the kind referred to at this meeting, an opportunity to present additional views, either in writing or orally. If the applicant requested the privilege of making an oral presentation, it was contemplated that the presentation would be before the Board, with the proceeding recorded and a transcript prepared. In the course of his comments, Mr. Hackley brought out that another underlying reason for recommending the suggested procedure was that in the event of appeal the Board's record would be far better, in the Legal Division's opinion, than if the opportunity for oral presentation had not been given.

Comments ensued on the extent to which it would be practicable for the Board's letter to an applicant to be specific in suggesting points to be covered, following which Governor Mills remarked that in his opinion an approach that would indicate a possible adverse position would be completely wrong. As he saw it, the letter to an applicant should invite its representatives to appear before the Board, if they

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so desired, and in particular to discuss certain aspects of the application, together with whatever fuller presentation the applicant might care to make.

With reference to the application of Manufacturers Trust Company, Chairman Martin suggested that the banks proposing to merge might be invited to appear before the Board for oral presentation on Tuesday, September 5, or Wednesday, September 6, those being dates on which it appeared that all of the present members of the Board would be available, and no objection to those dates was indicated. Accordingly, it was understood that the banks would be invited to have their representatives appear on one of those two dates and that a draft of letter to the applicant bank extending such an invitation would be prepared for the Board's consideration.

Governor Balderston referred to the recent application of Dauphin Deposit Trust Company, Harrisburg, Pennsylvania, to merge with Camp Curtin Trust Company, on which the Board reversed its unfavorable decision following oral argument, and suggested that it would have been helpful had the procedure now suggested by the Legal Division been followed in that instance. He noted also that the representatives of those banks, when they appeared before the Board, spent considerable time repeating information which was already before the Board before dealing with points that were of more concern. In the Manufacturers Trust case, he suggested that the questions might be framed with

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considerable thought to indicate points on which the Board would have a particular interest at the time of the oral presentation. He recognized that a problem was presented in attempting to set forth such questions without indicating to an applicant that the Board was leaning in one direction or the other, but he felt that it would be of advantage to all concerned if the time allotted for oral presentation could be devoted to vital points.

Other members of the Board concurred in the view that the questions raised with an applicant should be framed as objectively as possible, and it was suggested that it would be helpful for members of the Board to indicate to the staff any questions that they would like to have included.

Mr. Hackley inquired whether it was understood from this discussion that the Board accepted the procedural suggestion of the Legal Division, as stated in its memoranda of May 26 and July 24, 1961, for use in future cases, and it was indicated that this was the consensus. Mr. Hackley noted that the adoption of this procedure would tend to resolve two other procedural questions raised in the Legal Division's memorandum of May 26, 1961, and minimize the problems involved in respect to two further questions.

Chairman Martin said that he thought the procedure was good and that he would have no question about it. There was the point raised by Governor Mills that the Board would want to avoid the appearance of prejudging an application in any way, and there might be some questions involved along that line. Also, there might be a number of cases where,

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even though no disinclination to approve was indicated, the Board would still feel warranted in arranging an oral presentation before reaching a decision.

Further discussion clarified that it was not the intent to restrict the suggested procedure to precedent-making cases. Question then was raised whether it was contemplated that submission of additional views would be invited, before the Board reached a decision, in cases where one member of the Board indicated a disinclination to approve the application. The comments made on the point indicated that this was not the intent, and that in cases where a majority of the Board was prepared to take favorable action without delay, such action would be taken. However, if a majority of the Board was not prepared to make a favorable decision, either because of a disinclination to approve or because of the existence of questions that suggested the desirability of obtaining further comments or views from the applicant on certain aspects of the matter, then the procedure recommended by the Legal Division would come into effect.

Inquiry was made as to consideration by the Board of the remaining questions set forth in the Legal Division's memorandum of May 26, 1961, relating to procedure in merger and holding company cases, and after discussion the Chairman suggested that the Secretary keep the matter in mind, with a view to taking up those questions when a full Board was available.

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Bank holding company applications (Item No. 18). In the fall of 1958 the Board approved a recommendation made by the Legal Division in a memorandum dated September 18, 1958, that "two separate memoranda be prepared by the Division of Examinations with respect to each (bank holding company) application, one containing a summary of the facts reflected by the application and any additional facts that are pertinent to the matter, and the other memorandum containing the opinion and recommendation of the Division." In accordance with another recommendation made by the Legal Division, the Board on October 9, 1958, requested the Reserve Banks, in connection with each holding company application, to "submit separately, whether in the form of a letter or memorandum, (1) a statement setting forth the facts of the case, and (2) the views, opinions, and recommendations" of the Reserve Bank. The view was expressed in a memorandum dated May 18, 1961, from the Legal Division, copies of which had been distributed, that in the light of experience there were practical reasons for discontinuing the submission of separate memoranda by the Reserve Banks and the Division of Examinations. For those reasons, as set forth in the memorandum, the Legal Division, after consultation with the Division of Examinations, recommended that the practice be discontinued.

Following discussion during which Governor Mills noted that it would be incumbent upon those who prepared a single report, as proposed, to be completely frank and not to withhold information of any kind out of fear that the report might be introduced in evidence in a court

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proceeding, the change in procedure was approved unanimously. A copy of the letter sent to the Reserve Banks in this connection is attached as Item No. 18.

With general reference to the matter of procedure in connection with the handling of merger and holding company applications, various aspects of which had been touched upon at this meeting, Governor King made the comment at this point that as he saw the whole problem developing he was coming more and more to the point of view that in time the Board would have to adopt rather strict and standardized procedures, resembling those of the judiciary, even though they might appear to give less emphasis to the public relations aspect. Otherwise, he felt that substantial difficulties might arise, and he was not sure, in fact, that different procedures actually would be conducive to the maintenance of good public relations.

Application of Wachovia Bank and Trust Company (Item No. 19).

There had been distributed under date of July 20, 1961, copies of a memorandum from the Division of Examinations recommending disapproval of an application by Wachovia Bank and Trust Company, Winston-Salem, North Carolina, for permission to merge the First National Bank of Thomasville, Thomasville, North Carolina, into applicant and to operate the present office of the merged bank as a branch. Submitted with the Division memorandum was another of the same date from Mr. Leavitt stating reasons why he would favor approval of the application, which

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was also the recommendation of the Federal Reserve Bank of Richmond. The reports on competitive factors that had been submitted by the Federal Deposit Insurance Corporation and the Justice Department were adverse, while the report received from the Comptroller of the Currency was favorable.

Mr. Solomon commented that the application at hand was not susceptible of simple analysis and required a balancing of countervailing considerations. In this connection he noted that there was some difference of opinion within the Division, but he added that no one felt too strongly in either direction. Basically, he pointed out, Wachovia was the largest bank in North Carolina. There had been a marked trend in the State toward concentration of banking business in the hands of Wachovia and a few other banks, and this had occurred with the sympathy and concurrence of the State authorities. Wachovia held about 24 per cent of total deposits in the State, and some 37 per cent of the deposits in the 19 counties within which it operated. Although the bank proposed to be acquired was quite small, there were presented by the application problems relating to concentration of control and the competitive situation in the area where the smaller bank was located. Wachovia did not presently have an office in Davidson County, where the Thomasville bank was located, but it had a number of branches in the area within a 15 to 30 mile radius and, after the merger, would have about 40 per cent of the total deposits in that area.

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Mr. Solomon then referred to the management problem of the Thomasville bank, which constituted the basic reason for Mr. Leavitt's favorable recommendation on the application. However, Mr. Solomon said, it had seemed to him and to Mr. White that the argument was not quite as persuasive in this case as in some others. For one thing, the furtherance of the merger trend in the State would of itself make it more difficult to obtain competent management in independent banks. Also, the Thomasville bank's stock was owned substantially by members of a prominent family that should be able to find competent management if it so desired. As a further point, a merger of the bank with some other institution might be better than to add to the concentration already found in Wachovia.

Mr. Leavitt confirmed that this was regarded by all in the Division as a close case. Different people could look at the factors involved and come to different conclusions.

Governor Mills stated that, while agreeing that this was a close case, he was inclined toward approval of the application. However, he would subordinate the management factor to what he regarded as the key element, namely, the geographical situation. As Mr. Solomon had pointed out, the move toward branch banking operations and larger commercial banking institutions in the State of North Carolina had been encouraged by those prominent in the State government who regarded it as being to the financial benefit of the State. Also, as he recalled it, the scope

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and field of operations of the other large branch banking systems in the State did not impinge too much on the area served by Wachovia. Thus, in a manner of speaking the question boiled down to whether Wachovia should be allowed to fill a geographical gap where it was not currently represented and absorb a bank with which there already existed a community of financial interest through the Finch family. Approval of the application would regularize this existing relationship, while at the same time there would remain alternative banking facilities of a type adequate to serve the area. Therefore, on close balance he would be inclined toward approval of the application, leaving undetermined the larger question of the point at which Wachovia might be so expanding its size and operations as to represent an overwhelming dominance and control of financial resources.

Governor Robertson said that he would be disinclined to approve the application, and therefore would favor resorting to the procedure of inviting further views and comments from the applicant, either in writing or orally, before the Board reached a decision. In his opinion, Wachovia had already gotten, through the process of mergers, into a dominant position, and it was necessary to draw the line at some point. In every case, there were some factors that created doubt as to whether the time was appropriate to draw the line. However, he would draw the line here.

Governor Shepardson agreed that it was always difficult to decide where to draw a line. In this case, however, he was persuaded by the reasoning of Governor Mills and Mr. Leavitt. Also, in States like

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North Carolina, he believed it was important to develop banking resources of such size as to take care of the industries in those areas, and he was aware of the contribution Wachovia had made to the economic development of North Carolina. On that basis, he would not draw the line in this case. He believed that the foregoing consideration, in addition to those mentioned by Mr. Leavitt, outweighed the adverse factor of the concentration that was developing.

Governor King indicated that, despite his personal philosophy, he believed the banking philosophy of the individual States should be given some consideration. This philosophy, he noted, was quite different in some States than others. In California, for example, there was quite a liberal attitude toward State-wide branch banking; in other States the opposite was true. In North Carolina, if the people felt that the trend was going too far, they could take legislative action. In this light, therefore, he would be willing to approve the instant application, although somewhat reluctantly. Further, it appeared that the management situation at the Thomasville bank was unsatisfactory, and that was another consideration on the side of approval.

Mr. Hexter noted that there might be a question, from the standpoint of the statute, if the Board followed the philosophy embodied in the legislation of the respective States as a basis for making decisions on merger applications, to which Governor King responded in terms that he did not understand it to be necessary for a Board member to go further

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than to cast his vote one way or the other. In these various cases, however, he felt that it was illuminating to know what some of the factors were that had entered into a Board member's line of reasoning in arriving at a judgment. Therefore, he had outlined certain of the thoughts that had occurred to him in the course of reaching a judgment that he could vote to approve the application if the Board wished to proceed to a decision today.

Governor Balderston said that he also was inclined toward approval of the application although, as he had stated on other occasions, the concentration of banking power in the hands of Wachovia was a matter of considerable concern to him. In his view, the management question was a rather irrelevant issue, because the interests controlling the Thomasville bank apparently had the means to acquire management if they wanted to do so. What impressed him, however, was the point that certain areas of the country more or less remote from the large financial centers were well served if aggressive banking institutions of size were available. He looked upon North Carolina as an industrialized State, and in his opinion a bank with deposits of \$800 million was not too large an institution to take care of the needs of such a State. Therefore, he was not prepared as yet to "pull down the curtain" on Wachovia's growth.

Chairman Martin indicated that he might favor drawing the line on Wachovia's growth and dominance at some point. In his opinion, however, this application would be an inadvisable point at which to draw the

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line, in terms of the public interest and welfare. As he saw it, a denial of the application would amount to hampering the development of the community concerned. Accordingly, he would favor approval of the application.

Thereupon, the application of Wachovia Bank and Trust Company was approved, Governor Robertson dissenting for the reasons specified in the memorandum from the Division of Examinations. A copy of the letter to Wachovia informing it of the Board's decision is attached as Item No. 19.

Mr. White then withdrew from the meeting.

Application of State Bank of Albany. There had been distributed under date of July 25, 1961, copies of a memorandum from the Division of Examinations recommending approval of an application by State Bank of Albany, Albany, New York, to merge The Fort Plain National Bank, Fort Plain, New York, with and into the applicant and to operate a branch at the present location of the national bank. The recommendation of the Federal Reserve Bank of New York was also favorable. The reports of the Comptroller of the Currency and the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger were favorable, but the report of the Justice Department was adverse.

As stated in the memorandum of the Division of Examinations, the basis for its recommendation that the application be approved was as follows:

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- (1) Although the proposed merger would replace a relatively small country bank with a branch of the largest bank in New York's Fourth Banking District, the elimination of the competition existing between the constituent banks would not be particularly detrimental to the public interest in the Fort Plain area, where there were convenient alternative banking sources;
- (2) Area residents would seem to profit from improved banking services and an enlarged lending base;
- (3) The merger would offer an immediate solution to the rather severe management problem in Fort Plain National, and also the probability of a reversal of several unsatisfactory trends in that bank; and
- (4) The degree of increment to the concentration of banking resources in the Fourth District would be nominal, and while Fort Plain National as a branch of State Bank of Albany could compete more effectively with its much larger neighboring bank, it was not believed the stronger competition would be harmful to that bank.

Following comments by Mr. Solomon, Governor Mills stated that he would accept the reasoning of the Division of Examinations and would favor approval of the application.

Governor Robertson said that he was disinclined to approve the application. The merger would eliminate competition between the two banks and provide an additional increment to the resources of a bank that had been engaging in a merger process that was rapidly wiping out small banks in the area concerned. As to the Fort Plain bank, the bank examiner found that its condition was good, and there was nothing in the classifications to indicate otherwise. Further, its net current operating earnings had been satisfactory. Fifty-seven per cent of the bank's deposits were loaned out, in an agricultural community, which

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indicated that the bank was taking risks and serving the public. Although the bank was understaffed at the official level, it was understandable that there was no incentive at present for the bank to seek qualified officers in view of the offer to merge with State Bank of Albany, which was willing to pay a substantial premium for the stock. The directors were said to give the bank close supervision and to be competent men. In short, the Fort Plain bank appeared to be serving the area to the best of its ability. As to interbank competition, there was evidence that the Albany bank was reaching over into the area of the smaller bank and engaging in competition with it. The establishment of a branch in Fort Plain would be more expensive, and therefore the Albany bank was seeking to buy out the national bank.

Governor Robertson said he found no evidence of complaint on the part of people in the Fort Plain community regarding lack of promptness in acting on loan applications. It was suggested that the Albany bank might install an officer with power to make loans, whereas this power was now vested in three men, but that was not a strong point. Regarding the possibility of more favorable rates on loans following the merger, if the State Bank of Albany should obtain dominance in the area it would be in a position where it could charge higher rates at some later date.

Governor Shepardson observed that although the points mentioned by Governor Robertson were significant, his thinking on the application

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was influenced by the appearance of an ultraconservative attitude on the part of those in control of the Fort Plain bank toward reaching out to meet the growing needs of the public for banking services. Therefore, he felt there was justification for approval.

Governor King indicated that he would be inclined toward disapproval, and Governor Balderston indicated that he was impressed by the reasons cited by Governor Robertson. The fact that only 5 per cent of the bank's earnings were diverted to officer salaries, as against 13 per cent on average for banks of comparable size, suggested to him that the Fort Plain bank had not tried too hard to attract or hold competent men.

There being indication, therefore, that a majority of the Board was not inclined to approve the application at this time, it was understood, in accordance with the procedure adopted earlier during this meeting, that the State Bank of Albany would be afforded an opportunity to present further views or comments, either orally or in writing, and that the Federal Reserve Bank of New York also would be invited to submit further comments if it so desired.

Application of United California Bank. Copies of a memorandum from the Division of Examinations dated July 24, 1961, had been distributed recommending favorably on an application by United California Bank, Los Angeles, California, for permission to merge The Southwest Bank, Inglewood, California, into the former. Attached to the memorandum

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was another from Mr. Achor dated July 21, 1961, indicating reasons why he disagreed with the Division recommendation. The Federal Reserve Bank of San Francisco had recommended approval of the application. The reports of the Comptroller of the Currency and the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger were not adverse, while the Department of Justice had rendered an adverse report, particularly in terms of cumulative effect.

Mr. Solomon, in reviewing the application, noted that there apparently was little direct competition between the two banks involved; the offices of Southwest were situated for the most part in the western half of the Adams-Inglewood economic area on the southwest side of Los Angeles, whereas the four offices of applicant in the Adams-Inglewood area were located in the eastern half. One exception was an office of Southwest at Western and 88th Streets, recently placed in operation, which was situated in the eastern half of the economic area. All other offices of each bank were at least two miles away from any office of the other bank.

Mr. Solomon referred to the fact that United California Bank had acquired part of its present size last year, with the Board's approval, through the merger of California Bank and First Western Bank and Trust Company. While a large bank, it was fourth in size in the State of California and only a poor third in the Los Angeles area. This consideration had influenced the Division in making its favorable recommendation

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on the present application; the merger would not eliminate a great deal of competition and it would increase the ability of the third largest bank in the Los Angeles area to compete with the two larger institutions. As indicated by the two memoranda, there was some difference of opinion within the Division, but the feeling was not strong on either side. With respect to one aspect of the application, namely, the fact that should the merger be consummated there would remain only one independent institution in the Inglewood area, he noted that the effect on the remaining independent bank could be debated. Mr. Achor felt that the bank would be in a difficult and untenable position. However, the bank had been surrounded by giant banks for years and might even benefit from its status as the only independent bank in the area. At present, it had to share with Southwest the business of people who liked to deal with an independent bank.

Mr. Achor noted that the area involved in the application was about twenty miles from the location of the Bank of Encino, whose merger into United California Bank the Board recently approved. In the present case, the bank had been in operation since 1953 in an active economic area where over 70 banking offices were located. It had enjoyed good deposit growth and earnings, and was apparently serving the community well. Therefore, he saw no public advantage to its acquisition by United California Bank. Although, as mentioned by Mr. Solomon, competition between United California and Southwest was not intense, the new branch of

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the latter at Western and 88th Streets, which began operation earlier this month, was only one mile from an existing branch of United California. While the management of Southwest admittedly presented some problem, he did not feel that that aspect of the matter was too significant. Also, while some services might be increased if the merger were consummated, those services were now readily available in the area served by Southwest.

Governor Mills noted that competition in the area was predominantly between the large banks, any one of which, including United California, presumably could establish branches in the area now served by the Southwest Bank. In his opinion, approval of the proposed merger would not unsettle the existing competitive situation or increase the size of applicant disproportionately in relation to its principal competitors. In the circumstances, he would favor approval of the application. Although he regarded the premium that would be paid the stockholders of Southwest as exorbitant, he believed this was a matter for the judgment of United California Bank.

Governor Robertson stated that he was disinclined to approve the merger for the reasons presented by Mr. Achor. He would comment only on two points by way of emphasis. First, the merger would diminish competition for the business of those people who preferred to deal with a small bank by eliminating one of the two remaining independent institutions in the area. Second, with respect to the substantial premium that United California was willing to pay to acquire the stock of

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Southwest, this was an indication of the eagerness of the large California banks to expand by acquiring smaller institutions. It did not indicate an urge on the part of the Southwest Bank to sell.

Governor Shepardson noted that the Southwest Bank had shown vigorous growth. Although some comment had been made in the memorandum about lack of management capability, the growth record, the bank's reasonably satisfactory condition, and the indication that it apparently could obtain additional capital should the merger not go through all suggested that the bank had been doing a good job. Also, the large premium being offered the owners by United California exposed them to an inordinate temptation to sell. In summary, he found Mr. Achor's reasoning persuasive, and he would be inclined to disapprove the application.

Governor King also commented on the large premium being offered. He did not see that a great deal would be offered to the public by way of additional services if the merger were consummated. The owners of Southwest were, as he saw it, being tempted out of business, which he thought would be unfortunate. Therefore, he would be inclined to disapprove the application.

Governor Balderston stated that he favored building up United California as a strong competitor to the largest bank in the State, but that he would prefer to see the growth come by way of newly established branches. In this instance, he was impressed by the large premium and

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also by the fact that the merger would leave only one independent bank in the Inglewood area. Further, it appeared that the effect of the merger would be to diminish potential competition, particularly since Southwest had now opened a branch just one mile from one of the offices of United California. Accordingly, he would be disinclined to approve.

Chairman Martin commented that with due respect to United California, in this instance it appeared that it was reaching out to take over the smaller bank. In the absence of a clear showing that the transaction would be in the public interest, he felt that this kind of venture should be discouraged. Therefore, he would be disinclined to approve.

There followed a discussion of the procedure to be followed in circumstances of this kind, in the light of the procedural policy adopted earlier at this meeting, and at the conclusion of the discussion it was agreed that the adopted policy should be followed. This, it was understood, would call for inviting the applicant bank to submit additional views or comments, either orally or in writing, and also inviting the San Francisco Reserve Bank to submit further comments in support of its favorable recommendation if it so desired.

Governor King withdrew from the meeting at this point, as did Messrs. Hooff, Leavitt, Achor, McClintock, and Thompson.

Indemnification of cash agent banks (Item No. 20). Under date of July 25, 1961, distribution had been made of a memorandum from Messrs. Daniels and Harris discussing the extent and method of indemnification of

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cash agent banks and transmitting alternative drafts of a letter to the Chairman of the Presidents' Conference for possible use should the Board decide (1) to concur in the action of the Conference at its meeting on June 19, 1961, or (2) to concur, but with certain qualifications. The action referred to constituted approval of recommendations: (1) to amend the present Bank Agency Agreement to cover complete exculpation and indemnification of cash agent banks, and (2) to reject two proposals for purchased insurance, thus permitting the Loss Sharing Agreement to provide for the risks involved. The recommendations, approved by majority vote of the Presidents' Conference, had been made in a joint report of the Insurance Committee of the Federal Reserve Banks and the Subcommittee of Counsel on Emergency Operations. As noted in the July 25 memorandum, the action of the Presidents was discussed at the joint meeting of the Board and the Presidents on June 20, 1961, at which time it was understood the Board would take the matter under consideration.

The Presidents' Conference had concluded that the purchase of insurance would involve an unreasonable and unjustifiable expenditure; the rates appeared to be disproportionate to the risks involved and the insurance itself, as applied to a postattack situation, might be of questionable value. After discussion in the memorandum of the recommendation to eliminate the "breach of contract and negligence" exception from the liability and indemnification provisions in the Bank Agency Agreement, the conclusion was reached that the only significant new

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risk to be assumed by concurring in the recommendation was the risk of loss resulting from the failure of an agent bank to maintain its customary security measures. The view was expressed in the memorandum that if the Board was of the opinion that this risk was insignificant from a practical point of view, it might wish to consider the first alternative draft letter to the Chairman of the Presidents' Conference. On the other hand, should the Board be of the opinion that an agent bank should not be relieved from liability for failure to maintain its customary security measures in the protection of the Reserve Banks' currency, it might wish to consider the second alternative draft letter.

Asked by the Chairman for his comments, Mr. Daniels said that since the cost of insurance of currency stored with cash agents would be prohibitive, the issue basically resolved itself down to the question whether to exculpate and indemnify agent banks completely or provide a qualified exculpation. In his opinion, should a qualified exculpation be decided upon, the whole question was likely to be reopened. Mr. Farrell concurred in this comment. A qualified exculpation, he understood, probably would cause the cash agent banks to be subject to higher insurance rates, whereas the basic philosophy of the cash agent bank program was to hold the agent banks harmless from any loss and relieve them from any cost.

Mr. Harris said he could not conscientiously recommend exculpation of cash agent banks without at least holding them responsible for exercising

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due care with respect to the property of the Reserve Banks held on their premises. However, he would be willing to go as far as indicated in the second alternative draft of letter. He understood that insurance rates on the kind of risk the agent banks would have to assume under such a stipulation were not high. It was not apparent to him why, if the Reserve Banks were to rent vault space from agent banks, they should be treated differently from other users of such space.

Governor Mills indicated that he would agree that the responsibility referred to by Mr. Harris was the least that should be assumed by an agent bank. It would not impose a serious cost upon them, or a cost out of line with the distinction involved in being chosen as an agent bank. He felt that a distinction could be made between preattack and postattack situations. Since postattack conditions were likely to be chaotic, he would be inclined to hold the agent banks harmless for anything that might occur, but so far as the preattack situation was concerned, he felt that the general principles of the law of bailment should apply.

Governor Robertson expressed the view that complete exculpation of cash agent banks would be against public policy, and that the position taken in the second alternative draft of letter represented a reasonable approach. Should any agent bank object, it would be incumbent upon the Reserve Bank concerned to find another agent bank, and in this he did not contemplate any great difficulty.

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Governor Mills then called for further explanation of the second alternative draft of letter, following which he indicated that he was not completely satisfied with the position taken therein. He asked whether the matter could not be deferred in order that the Legal Division might investigate the law of bailment and see whether the language of the letter would contract an agent bank out of liability that it would be compelled to accept in any ordinary course of business. If that was intended, he would dissent from the proposed letter. It was his understanding that banks generally were willing to accept the responsibility involved in acting as cash agent banks and that only a few had complained. If there were scattered complaints, it should be possible for the Reserve Banks to approach other banks that would be willing to accept the offer to serve in a cash agent capacity.

Mr. Harris commented that the primary interest was in assuring that the property of the Reserve Banks would be adequately protected. This involved the question of negligence, a word that was rather nebulous. After consideration, however, it appeared that the only thing that would result in hazard to a Reserve Bank's property would be negligence in the sense of failing to exercise or maintain customary security measures. In the case of supervised banks, the Reserve Banks were in a position to know what the customary security measures were; the cash agent banks were selected on the basis that they had adequate security measures, and the intent of the proposed letter was simply to hold them liable for maintaining those precautions.

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Governor Mills noted that one group of Presidents had taken exception to the acceptance by the majority of the recommendation that cash agent banks be completely exculpated. He said that he shared the view of the minority, feeling that adoption of the majority position could subject the Reserve Banks to severe criticism.

Mr. Harris replied that this was why he had felt that the cash agent banks should be held responsible for maintenance of the customary security measures. Governor Robertson inquired of Mr. Harris whether he felt that the minority group of Presidents would be likely to go along with such a provision, and Mr. Harris expressed the view that they probably would. He was satisfied in his own mind, he said, that this would not put the problem back in its original posture. Governor Robertson said that, as he saw it, the adoption of the letter proposed by Mr. Harris would in effect constitute going along with the minority group of Presidents. This was a way of preserving everything that was actually needed, and he felt that the solution would be acceptable to the Presidents' Conference. Mr. Farrell expressed some doubt, however, that the proposed letter would be agreeable to the majority of the Presidents, although it might be agreeable to the minority. He again referred to the basic philosophy that the cash agent bank program should not cost the agent banks anything.

Chairman Martin inquired as to the urgency of the matter, and Governor Robertson and Mr. Harris replied in terms that the Chicago

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Reserve Bank was anxious to proceed with its cash agent bank program while the Cleveland Reserve Bank was anxious to resolve questions that had been raised by some of its cash agent banks.

Chairman Martin then inquired of Mr. Harris whether the second alternative draft letter accomplished everything that he felt was necessary, and the latter replied in the affirmative.

Governor Shepardson stated that he would be opposed to a complete exculpation of agent banks, which he thought would be difficult to defend in any public debate. This had led him to think back to the basic problem of the storage of currency pre-emergency. He recalled that at times in the past there had been discussion about the storage of currency at places such as Fort Riley, Kansas, and the OCDM Classified Location. Accordingly, he raised the question whether the use of such sites, plus the 36 Federal Reserve offices, might not provide the best solution.

Mr. Harris agreed that it might be desirable at some time to review current plans. However, the accepted Governmental policy, originally approved by President Eisenhower, contemplated the decentralization of currency to the maximum extent possible, and this involved the cash agent bank program. Accordingly, he would like to see Reserve Banks go ahead, under this policy, with the plans heretofore approved. It appeared that at present the use of cash agent banks might be limited largely to the Chicago and Cleveland Districts. Nevertheless, he would

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consider it desirable to foster the programs of those Banks; if this were not done, other Reserve Banks might lose the sense of urgency and necessity for decentralization in their Districts.

Governor Balderston commented that in the event of an attack it might be assumed that all forms of communication would be disrupted, and when they were reestablished one could not count on obtaining access to stocks of currency unless they were reasonably close. He felt that the current plan ought to be promoted, and he would favor sending the second alternative draft of letter. If the Presidents could not make headway under those terms, they would undoubtedly come back to the Board.

Governor Shepardson said that he would not object to the alternative approach if it was felt that it would accomplish the job. As he had said before, however, he would be opposed to complete exculpation.

Chairman Martin commented that this was a particularly critical point in defense planning activities. He would not like to see any plans delayed. Governor Mills had raised a good point, but he (Chairman Martin) felt that the System would be negligent if it did not push forward with the decentralized storage of currency.

Thereupon, the second alternative draft of letter to the Chairman of the Presidents' Conference was approved, Governor Mills dissenting for the reasons he had stated, with the understanding that the draft would be changed slightly before the letter was sent in order to make it clear that the Board would not concur in a complete exculpation of cash agent banks. A copy of the letter, as sent, is attached as Item No. 20.

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Messrs. Farrell, Solomon, Harris, Hexter, and Daniels then withdrew from the meeting.

Service deemed in the public interest. Section 5A of the Rules and Regulations of the Retirement System of the Federal Reserve Banks provides special benefits for members for periods of military service and for periods of service for not more than five years for a purpose deemed in the public interest. The section further stipulates that the full cost of such benefits shall be provided by special payments made by the respective employing Banks and that the Board of Trustees of the Retirement System shall have the power to grant such benefits to all members under general rules of uniform application set forth in resolutions adopted by the Board of Trustees and approved by the Board of Governors of the Federal Reserve System. Resolutions covering benefits to be provided for members of the Bank Plan entering military service were adopted by the Board of Trustees on June 17, 1959, and in a letter dated June 3, 1960, the Board of Governors approved those resolutions. However, no resolutions had been adopted covering the benefits to be provided for members whose employment was discontinued upon entry into service for not more than five years for a purpose deemed in the public interest. Therefore, in order to comply with the provisions of section 5A, the Board of Trustees of the Retirement System at a meeting held on June 21, 1961, adopted resolutions covering such benefits.

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A memorandum from the Division of Personnel Administration dated July 25, 1961, recommending that the Board of Governors approve the resolutions had been distributed. The memorandum noted that the Rules and Regulations of the Retirement System, as they were in effect before March 1955, contained a provision in section 9 that:

"Anything herein contained to the contrary notwithstanding, the Board of Trustees shall have the power to grant a retirement allowance to any employee retired by any Employing Bank or to grant a special additional benefit, provided that the Employing Bank after first having obtained the approval of the Board of Governors of the Federal Reserve System, shall pay to the Retirement System the amount required to cover the full cost of any such allowance or benefit."

Under this provision it was possible for the Federal Reserve Banks to provide retirement allowances for individuals under special conditions which were not necessarily of uniform applicability. The Internal Revenue Service raised objections to the provisions of this section as it felt that such broad discretion in the granting of additional benefits might disqualify the Retirement System for tax purposes. In order to meet the objections of the Internal Revenue Service, the foregoing paragraph of section 9 was eliminated and a new section 5A, as follows, was added to the Rules and Regulations in 1955:

"Any member whose employment by an Employing Bank is discontinued upon his entry into military service, or into service for a purpose deemed in the public interest for not more than five years, may be granted substantially the same retirement allowance he would have been entitled to receive if he had remained in the employ of the Employing Bank during the period of such military or other governmental service and had continued to receive the salary he was

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"receiving at the time of such discontinuation of employment, provided that the Employing Bank shall pay to the Retirement System the amount required to cover the full cost of any such retirement allowance. The Board of Trustees shall have the power to grant such retirement allowances under general rules of uniform application to all members, set forth in resolutions heretofore or hereafter adopted by the Board of Trustees and approved by the Board of Governors of the Federal Reserve System."

Because of the recent resignation of a member of the staff of a Federal Reserve Bank to accept a Presidential appointment, the desirability of implementing the provisions of section 5A in respect to "service for a purpose deemed in the public interest" became apparent. Proposed resolutions, as originally formulated by the Retirement Committee, did not indicate or define what constituted "a purpose deemed in the public interest", nor did they indicate by whom such determination should be made. The Executive Committee of the Retirement System subsequently considered the resolutions and in the interest of uniform application recommended to the Board of Trustees that additional wording be added to show that the responsibility for determining whether a particular service was deemed to be in the public interest would be placed jointly upon the employing Bank and the Board of Governors. The Board of Trustees adopted the suggestion of the Executive Committee and appropriate wording was added. However, at the time of the Trustee's meeting a question was raised concerning the effect of the resolutions on the tax status of the Retirement System, and later President Bryan wrote a letter on this point to the Chairman of the Retirement Committee expressing his reservations.

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Among the items attached to the memorandum from the Division of Personnel Administration was a memorandum from Mr. Hackley to Governor Mills dated June 5, 1961, discussing the problem of determining what would constitute a service "deemed in the public interest" for the purpose of granting additional benefits under section 5A of the Rules and Regulations. After presenting several possible alternatives, the memorandum expressed the view that a provision placing the responsibility for determination jointly upon the employing Reserve Bank and the Board of Governors probably would provide a sufficient element of certainty to save the resolutions from objection on the ground that the door would be left open for nonuniform treatment. The memorandum indicated that one possible alternative would be a definition of "service for a purpose deemed in the public interest" that would cover only service with a department or agency of the Federal Government specifically requested by such department or agency. Although such an alternative would be restrictive, it might be regarded as consistent with the original concept that the special retirement benefits would be accorded only to persons entering military service or a comparable service that would be in the national interest.

In a memorandum dated July 26, 1961, which had been distributed prior to this meeting, Mr. Hackley indicated how the alternative approach last mentioned above might be accomplished by changing one of the resolutions adopted by the Board of Trustees on June 21, 1961. The

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memorandum also discussed a suggestion by Governor Shepardson that in cases of public service, as contrasted with military service, the employee be required to pay his proportionate share of contributions covering his period of absence from the Reserve Bank. It was indicated in the memorandum how it was felt that the resolutions might be changed if such an approach should be deemed desirable.

In commenting on the matter, Mr. Sprecher noted that perhaps the principal question was how to define "service for a purpose deemed in the public interest". In this connection, he pointed out that the resolutions, in the form adopted by the Board of Trustees, would provide a common denominator concept in that a determination in the few public service cases likely to arise under section 5A would have to be made jointly by the employing Reserve Bank and the Board of Governors. Mr. Sprecher expressed the opinion that a suggestion such as had been made by Governor Shepardson could not be properly implemented without making changes in section 5A itself. He doubted whether it would be appropriate to try to wipe away by resolution the terms of a section of the regulations that the Board had approved. With further reference to the point raised by Governor Shepardson, he described certain benefits that would be lost to an individual leaving the service of a Reserve Bank to go into Government service.

Governor Mills said that having studied the matter he would be favorable to the approval of the resolutions as adopted by the Board

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of Trustees. However, if no objection was seen from a legal standpoint, he would also favor transmitting to the Federal Reserve Banks an S-letter that would provide guidelines in achieving uniformity by indicating generally the types of service that the Board would be willing to consider as service "deemed in the public interest".

Mr. Sprecher expressed agreement with the idea of the proposed letter, and Mr. Hackley indicated that he saw no objection.

Chairman Martin then inquired whether the members of the Board were prepared to approve the resolutions, and Governor Robertson indicated that he was not. First, an individual leaving a Reserve Bank and going to work for the Federal Government would come automatically under the Civil Service Retirement System. However, the resolutions provided that no additional retirement allowance which might be provided by an employing Reserve Bank with respect to a period of public service should be paid to a member if "he shall be paid any other retirement allowance or payment in the nature of a retirement allowance....by reason of his employment during such period of public service". Second, the resolutions provided that an individual leaving a Reserve Bank and going to work in a service deemed in the public interest could, in certain circumstances, have his retirement contributions covering his period of public service paid on his behalf by the employing Reserve Bank even if he never returned to the service of the Bank. Governor Robertson expressed the view that an individual leaving the service of a Reserve Bank and going to work

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for the Federal Government should properly make a sacrifice, in the same manner as other persons going into Federal service frequently make such a sacrifice. As far as military service was concerned, he had no question, but he noted that many entering military service are drafted. As to service with the Federal Government, Governor Robertson felt that a person leaving a Reserve Bank for such service should take the same retirement benefits as others in the Federal service. He also noted that operations under the provisions of the resolutions would not necessarily achieve uniformity, because there might be some cases that the Reserve Banks would not choose to present to the Board of Governors. In this respect, he felt that President Bryan had raised a good question regarding possible endangerment to the tax status of the Federal Reserve Retirement System, and that a clearance should be obtained, if possible, from the Internal Revenue Service.

There followed discussion, in the light of the second of the two questions raised by Governor Robertson, regarding the proper construction of the pertinent portions of the resolutions, and it was agreed that the question should be remanded to the staff for further study and report to the Board.

Governor Balderston then suggested that the staff also be requested to prepare for the Board's consideration a draft of S-letter to the Federal Reserve Banks of the kind referred to previously by Governor Mills, and it was agreed that such a draft should be prepared.

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Governor Mills inquired whether it would be agreeable to Governor Robertson, who was leaving on vacation, and to Governor Shepardson to approve the resolutions and the S-letter approach, subject to the Board's being satisfied, following staff study, regarding the second of the two questions previously raised by Governor Robertson.

Governor Robertson replied that this would take care of the particular question. However, there was still his other point, about keeping an individual who entered the service of the Federal Government from making a sacrifice by holding available to him the benefits of the Federal Reserve Retirement System. This approach had started with the concept of military service, but gradually it was being broadened. He felt that there should be limits.

Mr. Hackley expressed agreement in principle with Governor Robertson. He noted that the original concept extended to military service and other service essential in the national interest, rather than to just any type of Government service. It was his feeling that probably the ideal solution would be to incorporate definitive language in the resolutions themselves. Even if limitations were stated in an S-letter, there could still be a lack of uniformity, as Governor Robertson had pointed out, because the Reserve Banks might not present certain cases to the Board of Governors. A possible compromise was that in a single S-letter the Board might, in addition to advising of its concurrence in the resolutions, include a statement of its interpretation of service

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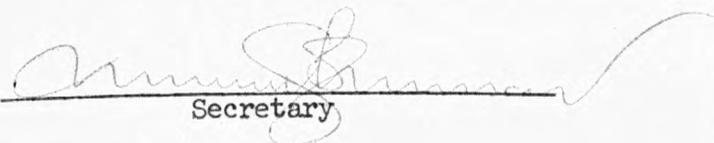
deemed in the public interest so that the two things would be set forth together.

Governor Mills pointed out that there would probably be only rare occasions when the provisions of section 5A and the implementing resolutions relating to service deemed in the public interest would come into play. Generally, an individual would be placed on leave of absence without pay from his Reserve Bank, and section 5A would come into effect only where an individual was compelled to resign his position with the employing Bank. Nevertheless, those cases, though rare, were likely to be important when they occurred.

Governor Robertson suggested that the staff study extend also to the question he had raised regarding the possibility of dual benefits under the Federal Reserve and Civil Service Retirement Systems. He then stated that, having expressed his views, he would have no objection if the Board wished to act on the matter at any time.

The discussion concluded with the understanding that the staff would look into the questions that had been raised at this meeting prior to further consideration of the subject by the Board.

The meeting then adjourned.

  
Secretary

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

Item No. 1  
7/27/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 27, 1961

Cravath, Swaine & Moore,  
15 Broad Street,  
New York 5, New York.

Dear Sirs:

This refers to your letter of July 20, 1961, requesting Board approval of the paragraph you propose to add to the public notice of proposed merger of Long Island Trust Company with Chemical Bank New York Trust Company, with respect to the continued operation of certain branches of Long Island Trust Company located in Suffolk County.

The proposed paragraph appears to be consistent with the purpose of the statute in providing the public with information as to the effect of the merger on existing banking locations. Therefore, the Board has no objection to the paragraph you have presented for consideration.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 2  
7/27/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 27, 1961

Board of Directors,  
Webster Groves Trust Company,  
Webster Groves, Missouri.

Gentlemen:

The Federal Reserve Bank of St. Louis has forwarded to the Board of Governors your resolution dated May 12, 1961, signifying your intention to withdraw from membership in the Federal Reserve System and your letter dated June 26, 1961, requesting waiver of the six months' notice of such withdrawal and setting forth the reason for withdrawal.

In accordance with your request, the Board of Governors waives the requirement of six months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of St. Louis of the Federal Reserve Bank stock issued to your institution such stock will be canceled and appropriate refund will be made thereon. Under the provisions of Section 10(c) of the Board's Regulation H your institution may accomplish termination of its membership at any time within eight months from the date the notice of intention to withdraw from membership was given.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of St. Louis.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

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

Item No. 3  
7/27/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 27, 1961

The Honorable Erle Cocke,  
Chairman,  
Federal Deposit Insurance Corporation,  
Washington 25, D. C.

Dear Mr. Cocke:

Reference is made to your letter of July 5, 1961,  
concerning the application of Webster Groves Trust Company,  
Webster Groves, Missouri, for continuance of deposit insurance  
after withdrawal from membership in the Federal Reserve  
System.

No corrective programs which the Board of Governors  
believes should be incorporated as conditions to the continuance  
of deposit insurance have been urged upon or agreed to by  
the bank.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 4  
7/27/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 27, 1961

Board of Directors,  
Gruver State Bank,  
Gruver, Texas.

Gentlemen:

The Federal Reserve Bank of Dallas has forwarded to the Board of Governors your resolution dated May 25, 1961, signifying your intention to withdraw from membership in the Federal Reserve System, and your letter dated June 29, 1961, requesting waiver of the six months' notice of such withdrawal and setting forth the reason for withdrawal.

In accordance with your request, the Board of Governors waives the requirement of six months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of Dallas of the Federal Reserve Bank stock issued to your institution such stock will be canceled and appropriate refund will be made thereon. Under the provisions of Section 10(c) of the Board's Regulation H your institution may accomplish termination of its membership at any time within eight months from the date the notice of intention to withdraw from membership was given.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of Dallas.

Attention is invited to the fact that if your bank is desirous of continuing deposit insurance after withdrawal from membership in the Federal Reserve System it will be necessary that application be made to the Federal Deposit Insurance Corporation.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

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

Item No. 5  
7/27/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 27, 1961

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

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

Dear Mr. Comptroller:

Reference is made to a letter from your office dated January 19, 1961, enclosing copies of an application to organize a national bank at Vernon, Connecticut, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Boston indicates favorable findings with respect to proposed capital, earnings, and need for the institution. The directors are a competent group of businessmen and management would appear satisfactory if a qualified executive officer is employed. Accordingly, the Board of Governors recommends favorable consideration of the application provided arrangements for executive management of the bank are made which would be satisfactory to your office.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

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

Item No. 6  
7/27/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 27, 1961

Confidential (FR)

Mr. Thomas M. Timlen, Jr.,  
Secretary,  
Federal Reserve Bank of New York,  
New York 45, New York.

Dear Mr. Timlen:

This refers to your letter of July 24, 1961, advising the Board that at the request of Mr. Robert V. Roosa, the services of Mr. Merlyn N. Trued, Manager, Foreign Department, are being made available to the Under Secretary of the Treasury for Monetary Affairs. It is noted that Mr. Trued has been granted a leave of absence with pay commencing on or about August 1, 1961, and terminating on or about December 31, 1961.

It is also noted that Messrs. MacLaury and Sternlight will conclude their tours of duty on July 28 with the Under Secretary of the Treasury.

The Board interposes no objection to Mr. Trued's serving in the Office of the Under Secretary of the Treasury for this period in the manner as outlined in your letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 7  
7/27/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 27, 1961

CONFIDENTIAL (FR)

Mr. Richard G. Wilgus,  
Vice President and Secretary,  
Federal Reserve Bank  
of Philadelphia,  
Philadelphia 1, Pennsylvania.

Dear Mr. Wilgus:

The Board of Governors approves a revision of the employees' salary structure of the Federal Reserve Bank of Philadelphia, effective immediately, to the extent of establishing the minimum limit of Grade 2 at \$2,400 in accordance with the action of your Board of Directors as reported in your letter of July 20, 1961.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 8  
7/27/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 27, 1961.

Dear Sir:

The 1956 edition of The Federal Reserve Act is in process of revision and it is expected that printed copies will be available before the end of this year. The revised edition will contain all amendments to the Act and related statutes through May 1, 1961. It is planned to print 1,000 loose-leaf sets; the number of paper-bound copies has not been determined.

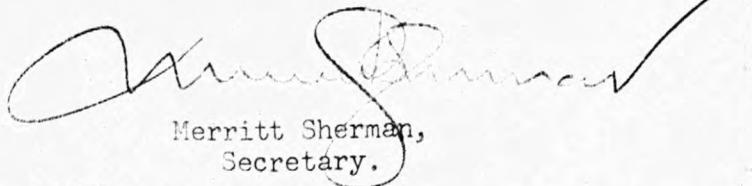
The distribution policy to be followed for the revision will be as outlined below:

- (1) Initially, one paper-bound copy will be sent, without charge, by each Reserve Bank to each member bank in its district;
- (2) Additional copies for member banks and copies for the public will be available at a charge of \$1.25 each; and
- (3) Upon request copies will be furnished without charge to members of Congress, Government departments and agencies (domestic and foreign), central banks, libraries of educational institutions, public libraries, and the press.

According to information furnished in June 1961, the number of paper-bound copies of the 1956 edition of the Act in supply at the Federal Reserve Banks then exceeded 3,600. In order that an accurate determination may be made as to the number of paper-bound copies of the new edition to be printed, it will be appreciated if you will wire the Board the number of such copies your Bank will require, bearing in mind the distribution and sale contemplated by the policy above outlined. It is requested that you limit your order to a minimum consistent with your anticipated needs over the next two years.

In addition, please indicate the number of loose-leaf copies your Bank will require for replacement of sets now held by officers and other members of your staff. Binders will not be furnished for any loose-leaf sets.

Very truly yours,



Merritt Sherman,  
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

for FRASER

ted.org/

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

Item No. 9  
7/27/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 27, 1961

CONFIDENTIAL (FR)

Mr. Carl E. Allen, President,  
Federal Reserve Bank of Chicago,  
Chicago 90, Illinois.

Dear Mr. Allen:

The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of Chicago for the period September 1 through December 31, 1961, at the rates indicated, which are the rates fixed by the Board of Directors as reported in your letter of July 20, 1961:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Richard A. Moffatt	Vice President	\$14,000
Daniel M. Doyle	Assistant Cashier	10,000

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 10  
7/27/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 27, 1961

Board of Directors,  
Bristol County Trust Company,  
Taunton, Massachusetts.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch in the Bay Colony Shopping Center, in the vicinity of the intersection of State Route 24 and U. S. Highway 44, Town of Raynham, Massachusetts, by Bristol County Trust Company, provided the branch is established within two years from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.



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

Item No. 11  
7/27/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 27, 1961

Board of Directors,  
Harvard Trust Company,  
Cambridge, Massachusetts.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of an in-town branch at 678 Massachusetts Avenue, Central Square, by Harvard Trust Company, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

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

Item No. 12  
7/27/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 27, 1961

Board of Directors,  
Liberty Bank & Trust Company,  
Buffalo, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Liberty Bank & Trust Company, Buffalo, New York, at 347-349 Central Avenue, Village of Fredonia, Town of Pomfret, New York, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.



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

Item No. 13  
7/27/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 27, 1961

Board of Directors,  
Manufacturers and Traders Trust Company,  
Buffalo, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Manufacturers and Traders Trust Company, Buffalo, New York, in the Aurora Village Shopping Center, Village of East Aurora, New York, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

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

Item No. 14  
7/27/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 27, 1961

Board of Directors,  
Manufacturers Trust Company,  
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a limited purpose branch by Manufacturers Trust Company, New York, New York, at 2086 West 5th Street, Brooklyn, New York, provided the branch is established within six months from the date of this letter.

It is understood that the banking operations conducted at this office will be limited to the functions of the Personal Loan Department of the bank's Marlboro Office located at 201-203 Avenue U in Brooklyn, and will not include the performance of any other functions involving contact with the public such as, but not limited to, the acceptance of deposits, the paying of checks, or making other types of loans.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

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

Item No. 15  
7/27/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 27, 1961

Board of Directors,  
The Peru Trust Company,  
Peru, Indiana.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of a branch at the Bunker Hill Air Force Base, Miami County, Indiana, by The Peru Trust Company, provided the branch is established within six months from the date of this letter.

It is understood that the branch will replace a facility now operated at the air base by the bank under U. S. Treasury Department authorization.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

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

Item No. 16  
7/27/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 27, 1961

Board of Directors,  
Bank of Reynolds,  
Reynolds, Indiana.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System approves the establishment of a branch in Chalmers, Indiana, by Bank of Reynolds, provided the bank's common stock is increased to not less than \$100,000 to meet statutory requirements, and the branch is established within nine months from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

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

Item No. 17  
7/27/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 27, 1961

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

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch in the downtown business area of Salinas, Monterey County, by United California Bank, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

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

S-1801

Item No. 18  
7/27/61ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

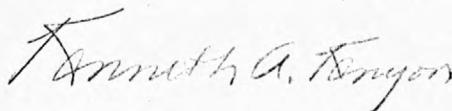
July 28, 1961.

Dear Sir:

In the Board's letter of October 9, 1958 (S-1674, F.R.L.S. #9342), it was requested that, in connection with bank holding company applications, the Reserve Banks submit separately, whether in the form of a letter or memorandum, (1) a statement setting forth the facts of the case, and (2) the views, opinions, and recommendation of the Reserve Bank.

In the light of experience, the Board is now of the view that the theoretical advantages of such separate letters or memoranda are offset by practical disadvantages. Accordingly, in connection with future bank holding company applications, your Bank's factual analysis and views, opinions, and recommendation may be incorporated in a single letter or memorandum. The Board's letter of October 9, 1958, is hereby rescinded.

Very truly yours,



Kenneth A. Kenyon,  
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 19  
7/27/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 27, 1961.



Board of Directors,  
Wachovia Bank and Trust Company,  
Winston-Salem, North Carolina.

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 First National Bank of Thomasville, Thomasville, North Carolina, and Wachovia Bank and Trust Company, Winston-Salem, North Carolina, as it finds the transaction to be in the public interest. The Board of Governors also approves the operation of a branch by the continuing bank at 10 Salem Street, Thomasville, North Carolina.

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 Merger adopted by the boards of directors of the two banks on March 14, 1961, and (2) shares of stock acquired from dissenting shareholders are disposed of within six months of acquisition.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

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

Item No. 20  
7/27/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 27, 1961.



Mr. Malcolm Bryan, Chairman,  
Conference of Presidents of the  
Federal Reserve Banks,  
Federal Reserve Bank of Atlanta,  
Atlanta 3, Georgia.

Dear Mr. Bryan:

At the joint meeting of the Board of Governors with the Presidents of the Federal Reserve Banks on June 20, 1961, there was a discussion of the action of the Conference of Presidents in approving the recommendations of the Joint Report of the Insurance Committee of the Federal Reserve Banks and the Subcommittee of Counsel on Emergency Operations, dated May 26, 1961.

The Board concurs with the finding that the cost of providing for complete indemnification and exculpation of Cash Agent Banks through the purchase of insurance by the Federal Reserve Banks under either of the two proposals obtained would be unwarranted. The Board is of the opinion that new and additional risks to be assumed as the result of waiver of liability for breach of contract and negligence and for which there are no other remedies are insignificant except for liability resulting from the failure of the Agent to maintain its customary security measures in the protection of the Principal's property. Accordingly, the Board does not concur in complete exculpation, but it does concur in the action of the Presidents' Conference subject to the above qualification. The exculpatory and indemnity provisions of the Bank Agency Agreement, when amended, should read substantially as follows:

The Agent shall not be liable hereunder for any act done or omitted to be done pursuant hereto except for its own breach of, or negligence in carrying out, or failing to carry out the provisions hereof and the directions and instructions of the Principal given pursuant hereto failure to maintain its customary security measures in the protection of the Principal's property insofar as possible under the conditions then existing.

Mr. Malcolm Bryan

-2-

The Principal agrees to indemnify and hold the Agent and its officers, employees and agents harmless from and against all loss, costs, damages and expenses [reasonably and properly] arising out of or in connection with acting as Agent of the Principal hereunder or out of any action taken by the Agent pursuant hereto unless due to the Agent's [own negligence or breach of the provisions hereof] failure to maintain its customary security measures in the protection of the Principal's property insofar as possible under the conditions then existing.

The Board is of the opinion that Section 2(A)(8) of the Loss Sharing Agreement, which provides for losses resulting from indemnity provisions in contracts with Cash Agent Banks, is broad enough to include losses arising pre-emergency as well as losses during a national emergency. Accordingly, currency at a Cash Agent or cash depot bank would be automatically covered under the Loss Sharing Agreement upon revision of the Bank Agency Agreement, and no revision or amendment of the Loss Sharing Agreement specifically referring to risks arising from such pre-emergency storage of currency is necessary.

A copy of this letter is being sent to each Reserve Bank President.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.