Minutes for September 18, 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 _____

Gov. Mitchell _____

Minutes of the Board of Governors of the Federal Reserve System on Monday, September 18, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Miss Carmichael, Assistant Secretary
Mr. Young, Adviser to the Board and Director, Division of International Finance
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Poundstone, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on September 15, 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.

Application of Wells Fargo Bank American Trust Company. There had been distributed a memorandum dated September 5, 1961, from the Division of Examinations recommending approval of an application by Wells Fargo Bank American Trust Company, San Francisco, California, to merge with The Farmers and Merchants National Bank of Santa Cruz, Santa Cruz, California, and to operate branches at the present two offices of

the national bank. The recommendation of the Federal Reserve Bank of San Francisco was favorable to the proposed merger, which had been approved by the California State Banking Department.

Mr. Solomon commented briefly on the proposed merger, noting that there was little competition between the two banks. He observed, however, that the merger would to a small degree increase the concentration of banking resources in the State of California.

Governor Shepardson inquired as to the results of the staff study of the expansion of branch banking in California and the manner in which the banking structure in that State was developing, which study had been undertaken pursuant to discussion at the Board meeting on March 10, 1961.

Mr. Solomon noted that the results of the staff study had been distributed to the members of the Board with a covering memorandum dated August 3, 1961. Statistics for the period 1950-1960 as developed in the study indicated that there was not an overbanked situation in the State so far as the total number of banking offices was concerned. However, there was a trend toward greater concentration of banking in a small number of very large banks.

Governor Shepardson commented that the lack of concentration of banking offices might argue for further increase in the number of branches but not for greater concentration of banking resources in the large banks of the State. He felt it desirable for the Board to resolve a general

approach for processing applications involving a further concentration of banking resources in California. On this point, it was recalled that the suggestion had been made that, after the staff study of California banking had been completed, it might be advisable for the Board to arrange a joint meeting with representatives of the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and California State banking authorities in an effort to reach agreement on a supervisory policy that might be followed in handling branch and merger applications in the State of California.

This part of the discussion concluded with the understanding that the staff study of California banking would be placed on the agenda for discussion at an early meeting of the Board.

In response to questions from Governor Mitchell regarding the merger application now before the Board, Mr. Solomon indicated that management of Farmers and Merchants National Bank was satisfactory, that the bank had concentrated on real estate mortgage loans, but that it was not active in the commercial lending area. Agricultural loans were relatively unimportant in the immediate vicinity of the city of Santa Cruz, which was located in a resort area separated by a mountainous section from the farming region in the eastern part of the county.

Governor Robertson then inquired as to the status of an application by Wells Fargo to the California State Banking Department for

permission to establish a branch in Santa Cruz. Mr. Leavitt replied that the member bank had not yet filed such an application with the Reserve Bank, that he was not certain whether State authorities were actively considering it, and that in any event he understood that it would be withdrawn if the proposed merger were approved.

Governor Robertson remarked that the present application should be considered in relation to the whole program with respect to banking in the State of California. In the instant case, the amount of actual competition that would be eliminated by the proposed merger was slight; however, potential competition was involved. It seemed clear that Wells Fargo wanted to get into the Santa Cruz area, since it had filed an application to establish a branch in the city, but understandably it would prefer to merge with a bank that was already established. Governor Robertson added that in his view the only way the Board could solve the problem of concentration of banking resources in California was to deny applications that would further such concentration. Accordingly, he would be inclined to start with this case and deny the request of Wells Fargo to merge with The Farmers and Merchants National Bank of Santa Cruz. As a basis for denying the application, he would have in mind the over-all situation in California where banking resources were becoming increasingly concentrated in a few large banks and small banks were being eliminated. While he would lean

in the direction of denying this merger application of Wells Fargo, he would have no objection to the establishment of a branch in Santa Cruz by that bank on the grounds that the new branch would provide additional competition, this view being based on the assumption that there was need for an additional banking office in the area.

Governor Shepardson stated that he also was concerned with the problem mentioned by Governor Robertson and the question as to the appropriate place to draw a line in approving or disapproving applications involving further concentration of banking resources in California. It was for this reason that he had raised a question as to the staff study of the banking situation in the State and the possibility of working out some type of concerted action among the several bank supervisory agencies. In the instant case, a minimum amount of competition would be eliminated. However, the applicant could probably establish a new branch in lieu of the proposed merger, and such a new branch would afford competition and serve the area effectively without eliminating an independent bank. Perhaps, therefore, this might be an appropriate time to prevent a further increase in the concentration of banking resources.

Governor King said it would be difficult for him to justify denial of the application in the light of past approvals by the Board of other mergers involving much greater concentration. Accordingly, he was inclined to favor approval of the Wells Fargo application. He

mentioned a pending application of United California Bank, Los Angeles, California, to merge with The Southwest Bank, Inglewood, California, which he felt would present a situation more logical for denial on the grounds that it would unnecessarily permit further concentration of banking in California.

Governor Mitchell stated that, before taking a position on the Santa Cruz case, he would prefer to review the staff study of banking in California. Based solely on the information contained in the September 5, 1961, memorandum from the Division of Examinations, he would be disposed to disapprove this application, since the proposed merger, if effected, would eliminate a small independent bank that seemed to be able to take care of itself. On the other hand, if Wells Fargo were to open a branch in Santa Cruz, there would be more competition in the area than at present.

After some further discussion, and particularly in view of Governor Mitchell's comment that he would prefer to review the staff study covering the banking situation in California before acting on this proposed merger, it was agreed that further discussion of the application would be carried over until later in the week.

Item distributed to the Board. The following item, which had been distributed to the Board and a copy of which is attached to these minutes as Item No. 1, was approved unanimously:

Letter to Morgan Guaranty International Banking Corporation, New York, New York, granting permission to purchase 6,000 additional shares of Credito Bursatil S. A., Mexico, D. F., Mexico.

Messrs. Hooff, Goodman, Leavitt, and Poundstone then withdrew from the meeting.

Report on recent trip. Mr. Young commented informally on his recent trip to Paris to attend a meeting of Working Party No. 3 of the Economic Policy Committee of the Organization for Economic Cooperation and Development.

Mr. Hexter then withdrew from the meeting.

Board meeting agenda. Governor Mitchell inquired whether it would be possible to receive earlier information as to the dates on which various items would be placed on Board meeting agenda. Following a discussion during which a number of suggestions were made, the Secretary of the Board was requested to take whatever steps seemed desirable in order to provide Board members as much advance notice as possible of dates on which specific items would be considered.

Interest rates. Governor Robertson stated reasons why he felt that it would be desirable for the Board to consider at an early date the question of the maximum permissible rate of interest on time and savings deposits under the Board's Regulation Q. After discussion, it was understood that this matter would be placed on the agenda for a meeting of the Board toward the end of October when all members would be present.

In this connection, Governor King expressed the view that all Board members should be present when the maximum rate of interest under Regulation Q was considered. He noted that the question had been discussed on various occasions in the past and individual members of the Board had expressed differing views, some of which were strongly held. While he recognized that the Board could take the matter up whenever a quorum was present, he felt that in the absence of an urgent need for doing so, which he did not believe existed, the effect of scheduling discussion of this subject at a time when any member of the Board was absent would be to deny that member the right to record his position.

Governor Robertson then referred to a copy of a recent letter that a Reserve Bank President had sent to a member bank in which the view was expressed by the President that the Board should raise the maximum permissible interest rate ceiling under Regulation Q to 4 per cent. He raised the question as to the propriety of such a statement by a Reserve Bank President in view of the nature of the problem and the responsibilities of the Board in the matter.

Governor Shepardson said that his reaction to the statement in the letter was the same as that of Governor Robertson; he doubted that the solution to the interest rate ceiling problem would be facilitated if Reserve Bank officers expressed views to the public as to the action that the Board should take.

Governor King stated that he believed the wording of the letter was unfortunate and that it might cause misunderstanding.

Governor Mitchell said that, while he had not yet read the letter to which Governor Robertson referred, he was in sympathy with the position of Reserve Bank officers who were called upon to answer questions such as those relating to the interest rate ceiling. He did, of course, visualize that any reply to a member bank would present both sides of a question and, if a position were taken, it would seem preferable for the writer to indicate that he was expressing his own view and not necessarily that of the System.

Governor Balderston observed that, if the letter had followed the pattern suggested by Governor Mitchell without expressing a definite view as to the action that should be taken by the Board, no question would be raised. In this instance, he had in mind mentioning the matter to the Reserve Bank President concerned at an opportune time so as to help him understand all aspects of the problem.

The meeting then adjourned.

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

Memorandum from the Division of Bank Operations recommending acceptance of the resignation of William J. Thompson, Analyst in that Division, effective at the close of business September 15, 1961.

Letter to the Federal Reserve Bank of Cleveland (attached Item No. 2) approving the designation of John Rothwell as special assistant examiner.

Secretary

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

Item No. 1
9/18/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 18, 1961

Morgan Guaranty International Banking Corporation,
23 Wall Street,
New York 8, New York.

Gentlemen:

In accordance with the request and on the basis of the information furnished in your letter of September 6, 1961, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants consent for Morgan Guaranty International Banking Corporation to purchase and hold 6,000 additional shares, par value Mexican pesos 100 each, of the capital stock of Credito Bursatil S. A., Mexico, D. F. Mexico, at a cost of approximately US$72,000, provided such stock is acquired within one year from the date of this letter.

The Board's consent is granted upon condition that Morgan Guaranty International Banking Corporation shall dispose of its holdings of stock in the Mexican corporation, as promptly as practicable, in the event that the Mexican corporation should at any time (1) engage in issuing, underwriting, selling or distributing securities in the United States; (2) engage in the general business of buying or selling goods, wares, merchandise, or commodities in the United States or transact any business in the United States except such as is incidental to its international or foreign business; or (3) otherwise conduct its operations in a manner which, in the judgment of the Board of Governors, causes the continued holding of its stock by Morgan Guaranty International Banking Corporation to be inappropriate under the provisions of Section 25(a) of the Federal Reserve Act or regulations thereunder.

Very truly yours,

Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 2
9/18/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 19, 1961

Mr. Paul C. Stetzelberger, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Stetzelberger:

In accordance with the request contained in your letter of September 12, 1961, the Board approves the designation of John Rothwell as a special assistant examiner for the Federal Reserve Bank of Cleveland for the purpose of participating in examinations of member banks except The Newport National Bank, Newport, Kentucky. The authorization heretofore given your Bank to designate Mr. Rothwell as a special assistant examiner is hereby canceled.

Appropriate notations have been in our records of the names to be deleted from the list of special assistant examiners.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.