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Minutes for September 21, 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

M

Gov. Mills

[Signature]

Gov. Robertson

CRB

Gov. Balderston

[Signature]

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Gov. Mitchell

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on
Thursday, September 21, 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. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations

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

Letter to The First National Bank of Norman,
Norman, Oklahoma, approving its application
for fiduciary powers.

Application to organize a national bank at Wichita, Kansas

(Item No. 2). At the Board meeting on September 15, 1961, consideration
was given to a request from the Comptroller of the Currency for a recom-
mendation with reference to an application to organize a national bank at
Wichita, Kansas. Both the Federal Reserve Bank of Kansas City and the
Board's Division of Examinations had recommended unfavorably on the
application.

Pursuant to the understanding at that meeting, Mr. Solomon had
talked by telephone with Vice President Mills of the Federal Reserve Bank

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of Kansas City regarding the application, and a memorandum dated September 20 had been distributed summarizing additional information furnished by the Reserve Bank. The memorandum had been accompanied by a copy of a letter dated August 3, 1961, from the First National Bank in Wichita to the Federal Reserve Bank of Kansas City setting forth reasons why the establishment of the proposed national bank would not be desirable at this time. As indicated in the memorandum, the Federal Reserve Bank of Kansas City and the Division of Examinations were still of the opinion that an unfavorable recommendation on the application should be sent to the Comptroller of the Currency for the reasons set forth in the Division's memorandum of August 31, 1961, and presented at the September 15 meeting.

Mr. Solomon said that the Kansas City Reserve Bank continued to feel that, if the proposed additional bank were to be established, it would seriously raise the question of overbanking. There now seemed to be fairly effective competition in the community, he added, noting that at present two banks were operating in the area and a third was scheduled to open within a few weeks. The Kansas State Banking Department had turned down a request for a State bank charter from the same group that was now attempting to establish a national bank on the grounds that there was no need for another bank in that vicinity. It was the view of the Kansas City Reserve Bank that a fourth bank in the area might result in earnings problems for the other three institutions, especially the new bank that was expected to open in the near future.

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Governor Robertson said he felt that entry in the banking field should be kept as wide open as possible in order to provide adequate competition. Also, he believed that the overbanked argument was overworked as a reason for denying applications to establish banks. This argument seemed less important now than before provision was made for Federal deposit insurance. The application now before the Board had been filed by a group with ample capital and, in general, the management factor appeared to be satisfactory. On those grounds, it would seem appropriate to recommend favorably on the application. However, Governor Robertson believed these factors were outweighed by the fact that a third banking institution for this locality had been approved and shortly would open for business. The State authorities were of the opinion that three banks would provide competition commensurate with the business of the area and that there was not room for a fourth bank at this time. He thought that it would be wise for a bank supervisory agency to wait until the third bank had opened for business and then review the situation before approving a fourth. Also on the side of an adverse recommendation was the control that the sponsors of the fourth bank (the Garvey family) already exercised over both the shopping center in which that bank would be located and a savings and loan association operating in that center. Therefore, on balance, he would favor an adverse recommendation to the Comptroller of the Currency on the ground that the application was premature.

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Governor Shepardson expressed agreement with the views stated by Governor Robertson.

Governor King said that he would not be inclined to place much weight on the letter from the First National Bank in Wichita opposing the establishment of the national bank. It appeared to him that the chief criticism in the letter was along the line that the main stockholder of the proposed bank was a domineering individual, and this did not seem to be a sufficient reason for an unfavorable recommendation. He agreed with Governors Robertson and Shepardson that there would be certain disadvantages to establishing a fourth bank in the area at this time. However, his preference would be to recommend favorably on the application, leaving the Comptroller of the Currency free to make a decision without having to take into account an unfavorable recommendation from the Board.

Governor Mitchell expressed the view that the right of entry into banking is basic and fundamental and should be restrained only when it clearly was not in the public interest. In this case, there were some complicating factors, one of which was that another new bank had been approved but was not yet open for business. In his judgment this would not be a sufficient reason for an unfavorable recommendation. He believed it to be desirable to have people with new ideas in the banking field and perhaps Mr. Garvey would be what the banking fraternity needed. People with new ideas who were willing to risk capital

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ought to be encouraged, he thought. Therefore, while he considered this to be a close case, he believed the Board should recommend favorably on the application.

Governor Balderston remarked that he usually favored additional entries into banking if conditions were favorable. In this case he was concerned about two points raised by Governor Robertson. The fact that a third bank had been approved but was not yet open for business would seem to make the establishment of a fourth bank premature. Also, he was bothered by the fact that the proposed national bank, if established, would be linked with a savings and loan association and a shopping center which were controlled by the same family. Accordingly, he believed the Board should recommend unfavorably on the application.

After acceptance of an editorial change, the proposed letter to the Comptroller of the Currency recommending unfavorably on the application was approved in the form of attached Item No. 2, Governors King and Mitchell dissenting for the reasons indicated.

Application of Wells Fargo Bank American Trust Company. At the meeting on September 18, 1961, there was a discussion of an application by Wells Fargo Bank American Trust Company, San Francisco, California, for permission to merge with The Farmers and Merchants National Bank of Santa Cruz, Santa Cruz, California. During the course of the discussion Governor Mitchell had stated that before arriving at a definite position he would appreciate having an opportunity to review the memorandum of

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August 3, 1961, from the Division of Examinations covering a study of banking in the State of California, and further consideration of the application was deferred until today's meeting.

Governor Mitchell reported that he had now reviewed the August 3 study and was more strongly inclined than he had been on September 18 to favor disapproval of the Wells Fargo application. He was not sure of the correct solution to the merger problem, but he did not believe that it could be resolved by continuing to permit further concentration of banking resources in California. If Wells Fargo wished to provide more competition in the Santa Cruz area, he believed it preferable for the bank to establish a new branch in that city rather than to buy an established bank.

Governor Robertson commented that Wells Fargo had shown a desire to compete with other banks in this community by filing with the California State Banking Department an application to establish a branch in Santa Cruz, as well as applying for permission to merge with Farmers and Merchants. If either application were approved, Wells Fargo would be in position to compete with the other banks of the area. If a new bank were established and a consolidation of Wells Fargo and Farmers and Merchants National Bank then were effected, competition would be decreased. Therefore, it would seem safe to conclude that the proposed merger would result in a diminution of potential competition. This would be but one step in the trend in the State of California toward

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greater concentration of banking in large institutions. If that trend were not stopped at some point, eventually there would be only a few large banks in the State. Accordingly, since the proposed merger would eliminate a good small institution, Governor Robertson said it was his inclination to deny the merger application but to allow the bank to proceed with its application for a branch. If the branch application should be turned down, a new application to merge could then be considered. While the reason for denial here was not as clear as it might be in other cases, he believed that a court would uphold the Board's decision as a reasonable interpretation of the bank merger statute.

Governor Shepardson said that at the time of the September 18 meeting his views had been similar to those just expressed by Governor Robertson. In reviewing the staff study of the banking situation in California, however, he had observed that in Santa Cruz County in which the merger was proposed there was less population per banking office than the average for the State and that deposits in that county were less than the average for the State. In view of this and the improved service that the merged bank would be in a position to offer, including loans at lower rates, Governor Shepardson said he was inclined to favor approval of the application. At the same time he felt it should be recognized that any such merger was part of a total movement toward fewer banks in the State of California.

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Governor King reiterated the view he had expressed at the September 18 meeting to the effect that, since only a small increase in concentration of banking resources was involved in the proposed merger, this would not seem to be a suitable place for denial as a means of preventing further concentration in California. For this reason, as well as for the reasons mentioned by Governor Shepardson, he was inclined to approve the application.

Governor Balderston said that, since there was a prospect for Wells Fargo to establish a new branch in Santa Cruz, this would provide that bank an opportunity to compete with Bank of America National Trust and Savings Association, which was already well established in the area. It seemed to him preferable for Wells Fargo to establish a new branch rather than absorb a bank already in existence, and his inclination was in the direction of disapproving the application.

Since it appeared from the foregoing discussion that a majority of the Board was inclined toward disapproval of the application, the Secretary referred to the procedure adopted at the meeting on July 27, 1961, in connection with merger applications. Under that procedure, where a majority of the Board indicated a disposition to deny an application, a letter would be sent inviting the applicant--in this case Wells Fargo--to submit further information or comments or, if it desired, to make an oral presentation to the Board.

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Governor Robertson raised the question whether the Board now felt that the procedure agreed upon at the July 27 meeting was the correct one. A general discussion of that procedure and various alternatives followed, at the conclusion of which Governor Robertson suggested, and there was agreement, that the procedure adopted at the July 27 meeting be followed in this case and that the staff submit for the Board's consideration a draft of letter to Wells Fargo inviting comments with respect to some of the questions raised in the course of the discussion.

Interest rates. Governor Mitchell referred to discussion at the meeting on September 18, 1961, of a 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. At that time Governor Mitchell had not yet had an opportunity to read the letter. He reported that he had now read the letter and agreed with views expressed by other members of the Board at the September 18 meeting that the wording of the letter was unfortunate and that it would be appropriate for Governor Balderston to mention the letter to the Reserve Bank President at an opportune time.

The meeting then adjourned.

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

Letter to the Federal Reserve Bank of Richmond (attached Item No. 3) approving the designation of Robin E. Snyder as special assistant examiner.

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Letter to the Federal Reserve Bank of Chicago (attached Item No. 4) approving the appointment of Ralph L. Egeland as assistant examiner.

Memoranda from appropriate individuals concerned recommending the following actions relating to the Board's staff:

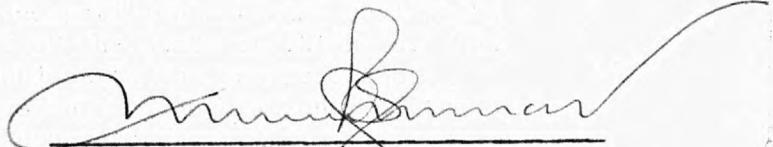
Transfers

Athens J. Messick, from the position of Secretary, Board Members' Staff, to the position of Secretary to Governor Mitchell, with an increase in her basic annual salary from \$6,710 to \$7,260, effective September 21, 1961.

Catherine B. Davian, from the position of Secretary in the Division of International Finance to the position of Secretary, Board Members' Staff, with no change in her basic annual salary at the rate of \$6,015, effective the date she assumes her new duties.

Salary increase

Mary E. Johnson, Telephone Operator, Division of Administrative Services, from \$4,775 to \$4,880 per annum, effective October 1, 1961.


Secretary

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

Item No. 1
9/21/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 21, 1961

Board of Directors,
The First National Bank of Norman,
Norman, Oklahoma.

Gentlemen:

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

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

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 2
9/21/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 21, 1961.

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

Attention: Mr. C. C. Fleming,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated July 7, 1961, enclosing copies of an application to organize a national bank at Wichita, Kansas, 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 Kansas City indicates that the proposed capital structure would be adequate. Management of the proposed bank is regarded as only fairly satisfactory due to rather limited experience of the active executive officer and some question as to the use to which the bank might be put by the Garvey family which will exercise control.

During 1961 there have been three banks chartered in Wichita. One of these will soon be in operation and it plus two other banks located within three miles of the proposed bank will provide reasonably convenient banking services for the area. Establishing another bank in this section of the city would no doubt draw heavily on the deposits of the two existing banks and would handicap the bank that is preparing to open about October 15, 1961. There exists a possibility that business might be divided to an extent where profitable operations of one or more banks might be jeopardized. While the earnings potential of the proposed national bank appears fairly satisfactory, the possibility of an over-banked situation with attendant pressure on area bank earnings exists. Accordingly, the Board of Governors considers the application somewhat premature and does not feel justified in recommending approval of the proposal at this time.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 3
9/21/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 21, 1961

Mr. John L. Nosker, Vice President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Nosker:

In accordance with the request contained in your letter of September 14, 1961, the Board approves the designation of Robin E. Snyder as a special assistant examiner for the Federal Reserve Bank of Richmond for the purpose of participating in examinations of State member banks except Union Trust Company of Maryland, Baltimore, Maryland. The approval heretofore given your Bank to designate Mr. Snyder as a special assistant examiner is hereby canceled.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 4
9/21/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 21, 1961

Mr. Hugh J. Helmer, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Helmer:

In accordance with the request contained in your letter of September 15, 1961, the Board approves the appointment of Ralph L. Egeland as an assistant examiner for the Federal Reserve Bank of Chicago. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.