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Minutes for November 7, 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

RM

Gov. Mills

[Signature]

Gov. Robertson

[Signature]

Gov. Balderston

CCB

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Gov. Mitchell

[Signature]

Minutes of the Board of Governors of the Federal Reserve System
on Tuesday, November 7, 1961. The Board met in the Board Room at
10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. King
Mr. Mitchell

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of
Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Thompson, Supervisory Review Examiner,
Division of Examinations
Mr. Achor, Review Examiner, Division of
Examinations
Mr. Guth, Review Examiner, Division of
Examinations

United Security Savings Account Plan (Item No. 1). Pursuant to
the understanding at yesterday's meeting, there had been distributed a
revised draft of letter to the Federal Reserve Bank of Chicago regarding
the United Security Savings Account Plan in the form in which it was now
proposed to be offered by Citizens Bank & Trust Company, Park Ridge,
Illinois.

After Mr. Hooff had commented on certain additional changes that
would be recommended by the Legal Division, unanimous approval was given
to a letter in the form attached as Item No. 1.

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Report on competitive factors (Allentown-Coplay, Pennsylvania).

There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of The Merchants National Bank of Allentown, Allentown, Pennsylvania, and The Coplay National Bank, Coplay, Pennsylvania.

The report, in which the conclusion read as follows, was approved unanimously for transmittal to the Comptroller:

The proposed consolidation of The Merchants National Bank of Allentown, Allentown, Pennsylvania, and The Coplay National Bank, Coplay, Pennsylvania, would eliminate the competition existing between these two banks; however, the over-all effect on competition should not be adverse.

Application of United California Bank. United California Bank, Los Angeles, California, had submitted an application to the Board for permission to merge with The First National Bank of La Verne, La Verne, California. In a memorandum distributed under date of October 17, 1961, the Division of Examinations recommended approval.

In reply to a question raised by the Chairman, the Secretary commented that the application had been discussed by the Board at its meeting on October 25, 1961, at which time a majority of the members of the Board indicated that they were disposed toward denial.^{1/} Therefore, under the procedure adopted by the Board on July 27, 1961, which was still in effect on October 25, the applicant would have been afforded an opportunity to present additional information or views in writing or by means of an oral presentation before the Board reached a decision. It was

^{1/} Chairman Martin was not present at the October 25 meeting.

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decided to hold the matter over, however, until after the Board had reviewed the general question of procedures to be followed in connection with the processing of bank merger and bank holding company applications. This was done on October 30, at which time agreement was reached on revised procedures.

Governor Mills said it was his understanding that at the meeting on October 25 the Board had reached a firm decision concerning the application. However, the Board recognized that it was going to make a general review of its procedures shortly. This had since been done, and the newly adopted procedures superseded the earlier procedure under which an applicant was given an opportunity to submit additional information or views orally or in writing if there was a disinclination to approve.

Governor Robertson stated that this was in accord with his recollection. As he understood it, a majority of the Board was against approval of the application, but the matter was held up until after the Board had made the general review of procedures that was then pending in order to determine what procedure should be followed in this case.

Mr. Hackley said it was his understanding that no vote had been taken at the October 25 meeting. There was a disinclination to approve on the part of a majority of the Board, which under the procedure adopted July 27 would have made it mandatory to afford the applicant an opportunity to present its views orally or in writing before a decision was reached. The Board decided to hold the matter over until after its general review

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of procedures to be followed in bank merger cases, and it was his impression that no final action had as yet been taken on the application.

Governor Mills then said that he would have no objection to bringing up the application in what would amount to a de novo status, although that would be contrary to his understanding, which was that a decision had been reached at the October 25 meeting to deny the application. Governor Robertson expressed the view that it was immaterial for practical purposes whether the application was discussed now or whether action on it was considered to have been taken on October 25, because on October 30 the Board's procedures applicable to bank merger cases had been changed. Governor King commented that at the October 25 meeting he had said everything he cared to say concerning the application. Whether or not a vote had actually been taken, the members of the Board present on October 25 had expressed their opinions and, as he had said, his own comments were voiced at that time.

The Chairman then suggested that the consideration of the application proceed to a vote, since the members of the Board apparently were not disposed to feel that further discussion of the matter was necessary, and Governor Mills said he had found no reason to change his previously expressed opinion, which was that the application should be denied. Governors Robertson, King, and Mitchell also stated that they would vote to deny the application, while Chairman Martin and Governor Shepardson stated that they would vote to approve.

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In commenting on his position, Governor Mitchell said he viewed this as such a close case that if the matter were to come up for oral presentation, he felt there was some chance that he might reverse his position. He then asked for clarification regarding the circumstances in which oral presentation would be contemplated under the procedures decided upon by the Board on October 30, to which Mr. Hackley replied that the Board had thereby abandoned its internal rule of July 27 which made it mandatory to afford an opportunity for oral presentation if a majority of the Board was inclined to disapprove an application. However, under the procedures agreed upon on October 30, the Board could still provide an opportunity for oral presentation in any case where that procedure was regarded as desirable.

Mr. Solomon noted that in connection with its recent application for permission to merge with The Southwest Bank, Inglewood, California, United California Bank had been invited to make an oral presentation, if it so desired, as provided under the procedure adopted on July 27. Although the applicant bank did not take advantage of the invitation, it might seem peculiar to the bank if it was not afforded a like opportunity for oral presentation in this case. It might be, of course, that the bank would submit a petition for reconsideration of denial of the application, and the question whether to grant an oral presentation could be determined at that time.

In reply, Chairman Martin noted that the Board had published amendments to its Rules of Procedure reflecting action taken by the Board

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on October 30. Accordingly, member banks were on notice that certain procedural changes had been made by the Board.

Governor Mitchell commented that if an applicant bank should present a good case for an oral presentation, he would be agreeable to allowing such a presentation. He did not think, however, that oral presentations should be solicited.

Accordingly, with Chairman Martin and Governor Shepardson dissenting, the application of United California Bank for permission to merge with The First National Bank of La Verne was denied. It was understood that the Legal Division would prepare for the Board's consideration an order and supporting statements reflecting this decision.

In this connection, Mr. Hackley inquired whether, in preparing a statement in support of the majority decision, the Legal Division should consider that the main ground for denial would be the effect of the proposed merger on potential competition.

Governor Mills commented that the minute record of the October 25 meeting would reflect the reasoning that had been expressed by the Board members favoring denial, following which Governor Robertson made certain comments based on his analysis of the case that he felt might be helpful in drafting the statement in support of the adverse decision. First, to the extent that the growth alleged to be taking place in the La Verne area was residential, the larger loan limitation contended in the application to be necessary would not be vital. Second, United California

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Bank already was in a position to handle the credit needs of industries said to be developing in adjacent areas, such as Claremont, through its existing nearby branch offices, and other large banks also had offices in the general area. Third, the proposed merger possibly would eliminate some present competition, as well as potential competition. In addition, it would eliminate one more independent bank, one which was sound, according to the record, and not in a position where it was compelled to merge. There were no indications that this was a bank in a failing condition.

Application of Wells Fargo Bank American Trust Company. Following preliminary discussion of an application of 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, the Board wrote to the applicant bank under date of September 22, 1961, inviting further information or comments that either it or the bank proposed to be acquired might wish to present. An oral presentation was requested by the applicant, and this was scheduled to be held tomorrow, November 8. In addition, material had been received in writing from the two banks concerned. This material was discussed in memoranda from the Division of Examinations dated November 3 and 6, 1961, both of which had been distributed to the Board.

At the request of the Board, Mr. Solomon commented on the additional material that had been submitted in writing. In general, although some of

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the contentions that were made might be subject to question, it was the view of the Division of Examinations that the material was quite persuasive.

Messrs. Hooff and Achor then withdrew.

Application of Marine Corporation. There had been distributed to the Board memoranda from the Division of Examinations and the Legal Division relating to the application of The Marine Corporation, Milwaukee, Wisconsin, for prior approval of the acquisition of common stock of The National Manufacturers Bank of Neenah, Neenah, Wisconsin. The Division of Examinations, the Federal Reserve Bank of Chicago, and the Comptroller of the Currency recommended approval. The Department of Justice had filed with the Board a statement in opposition, to which the applicant had filed a reply.

At the Board's request, Mr. Thompson presented a summary of the principal facts of the case. With regard to the factors specified in section 3(c) of the Bank Holding Company Act, it was the opinion of the Division of Examinations that the financial history and condition, prospects, and character of management of both Marine Corporation and the bank in Neenah were satisfactory. As to the convenience, needs, and welfare of the community and area concerned, it was not believed that this factor lent strong support for approval of the application; on the other hand, however, it was felt that approval would be consistent with this factor. As to the fifth factor, it was believed that approval would

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not expand Marine's system beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking. The acquisition would not appear to affect adversely the soundness of the remaining banks in the relevant area of competition, and it would have no material effect upon the competitive position of those banks. In summary, this was regarded as a relatively neutral case, there being no factors that appeared to weigh heavily in favor of either approval or denial. In the circumstances, the Division recommended approval.

There followed, at the instance of Governor Mitchell, a discussion of the manner in which applications might be viewed under the law when there appeared to be no considerations weighing strongly in favor of either approval or denial. In this connection, Mr. Hackley commented that on a number of occasions in the past the Board had approved applications under the Bank Holding Company Act as being consistent with the public interest even though the proposed transaction did not appear in any specific respect to contribute definitely to the public interest.

At the instance of Governor King, there followed comments on the terms of the offer made to shareholders of the national bank by Marine Corporation, as set forth in the memorandum from the Division of Examinations, and Mr. Solomon expressed the view that no unduly large premium was involved.

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The members of the Board were then called upon by the Chairman for expression of their views, and Governor Mills indicated that he concurred in the favorable recommendation and would approve the application. While he had no enthusiasm for the expansion of bank holding companies into areas where they were not already operating, he recalled that in its decisions the Board had recognized that the Bank Holding Company Act was not a death sentence. In this case he could see nothing in the available material to indicate that consummation of the proposed transaction would be tangibly contrary to the purposes of the Act. His philosophy, in a narrowly balanced situation of this kind, was that it was in the public interest to recognize the right of a purchaser and a seller to reach a mutual understanding on a transaction, in the absence of compelling reasons in the public interest. In this instance, he could not discover such compelling reasons.

Governor Robertson said that he agreed with the staff recommendation. The application did not appear to involve an undue expansion, nor did it suggest adverse effects on competition. Governor Shepardson said that he would concur with the staff recommendation, on the basis stated by Governor Mills, and Governor King also indicated concurrence with the recommendation. Governor Mitchell likewise expressed concurrence, adding that in his view there was a fairly good chance that the quality of banking services available in Neenah would be improved by virtue of the acquisition. He saw no reason to be apprehensive about competition being lessened. Chairman Martin also expressed concurrence.

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Accordingly, the application of Marine Corporation was approved unanimously, and it was understood that the Legal Division would prepare for the Board's consideration an order and statement reflecting this decision.

All of the members of the staff except Messrs. Sherman and Solomon then withdrew from the meeting.

Services of Mr. Stephenson (Item No. 2). Governor Shepardson noted that R. M. Stephenson, Assistant Vice President of the Federal Reserve Bank of Atlanta assigned to the New Orleans Branch, had recently spent about a month in the Board's offices familiarizing himself with the nature of the work performed by the Board's organization. He went on to say that Mr. Stephenson had had considerable experience in the field of bank supervision, that the Division of Examinations was in need of additional assistance, and that it had appeared that it might be beneficial both from the standpoint of the Division and Mr. Stephenson's future services with the Atlanta Bank if an arrangement could be made whereby Mr. Stephenson would be assigned to the Board for approximately one year from about January 2, 1962, under arrangements similar to those that had been made in the past in connection with assignments of this character. Accordingly, Governor Shepardson had discussed the matter informally with President Bryan, and the latter was found to be receptive to the idea. In the circumstances, Governor Shepardson recommended that the suggested assignment be arranged.

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There was unanimous agreement with this recommendation, it being understood that the detailed arrangements would be subject to approval by Governor Shepardson. A copy of the letter sent to President Bryan in implementation of this action is attached as Item No. 2.

The meeting then adjourned.

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

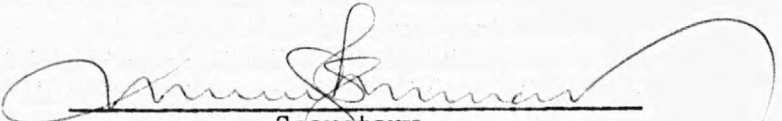
Appointments

Theodore R. Wilson as Economist, Division of International Finance, with basic annual salary at the rate of \$7,560, effective the date of entrance upon duty.

Robert George Sundberg as Review Examiner, Division of Examinations, with basic annual salary at the rate of \$9,995, effective January 2, 1962. (In accordance with the Board's policy of paying moving expenses of employees recruited from the Federal Reserve Banks, it was understood that Mr. Sundberg would be reimbursed for his moving expenses from Cleveland, Ohio, to Washington, D. C., including transportation and per diem while in a travel status.)

Acceptance of resignation

Blanche King, Charwoman, Division of Administrative Services, effective at the close of business November 3, 1961.


Secretary

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

Item No. 1
11/7/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 7, 1961



Mr. Paul C. Hodge, Vice President,
General Counsel and Secretary,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Hodge:

This refers to your letter of October 25, 1961, with respect to the revised United Security Savings Account Plan of Citizens Bank & Trust Company, Park Ridge, Illinois.

It appears that the only significant change in the bank's revised plan is elimination of the agreement between the savings depositor and the bank that the latter will automatically deduct from the savings account the amount of any check drawn on the bank that is not covered by remittance within seven days. The new plan provides that such checks will be considered a lending of funds by the bank for which the depositor will pay 10 cents per check and an additional one-half per cent per month if the indebtedness thus created extends beyond a fixed day of each month, regardless of when created. Such indebtedness may be retired by direct payment or by a specific request or instruction to the bank by the customer, within 10 days after such due date, to discharge the loan by a transfer from the savings account held by the bank as collateral for the credit extended. Under the plan, such credit will never exceed the amount of the savings deposit.

It is the Board's view that this change in form makes no substantial difference in the plan as originally established. It would still involve payments to the bank from a savings deposit pursuant to an advertised plan or agreement authorizing such payments to be made as a normal practice in order to cover checks drawn on the bank, and it would therefore be prohibited by section 217.1(e)(3) of the proposed amendments to Regulation Q. The effect would still be to permit a depositor to receive interest on his savings account and at the same time to make use of that account for checking purposes.

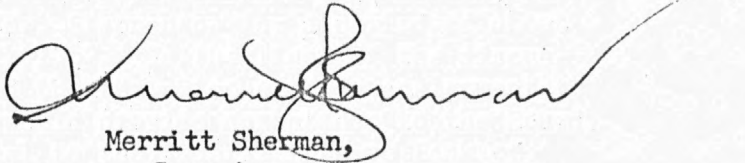
Mr. Paul C. Hodge

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The bank has contended that this proposed plan is similar to the check-credit plans used by other banks. However, in the usual check-credit plan there is an extension of credit that is based upon the credit rating of the customer and is not measured by the amount of funds in a savings account in the same bank. In a real sense, under this arrangement the Park Ridge bank would not be extending credit, because it holds at least an equal amount of funds of the depositor at all times.

It is noted that you have not been furnished copies of advertising material that the bank proposes to use in connection with its revised plan. The bank's previous advertising material has been such as to suggest to the public that checks could be drawn against the savings account, which arrangement would be tantamount to a checking account upon which interest would be paid, a practice prohibited by Section 19 of the Federal Reserve Act. The bank should be warned against the use of such misleading advertising.

Very truly yours,



Merritt Sherman,
Secretary.

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

Item No. 2
11/7/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 7, 1961

CONFIDENTIAL (F.R.)

Mr. Malcolm C. Bryan, President,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Bryan:

This is to confirm the arrangement discussed informally with you by Governor Shepardson regarding the possible assignment to the Board of Mr. R. M. Stephenson, Assistant Vice President of the Federal Reserve Bank of Atlanta, assigned to the New Orleans Branch.

The Board would appreciate the temporary assignment to its offices in Washington of Mr. Stephenson for a period of about one year from about January 2, 1962. In the light of the discussions with you, it is believed that Mr. Stephenson's assignment to the Board's offices not only would provide assistance to the Board, but also would prove beneficial to the Federal Reserve Bank of Atlanta in connection with future services of Mr. Stephenson with the Bank.

Under the proposed arrangement, and in accordance with your suggestion, Mr. Stephenson would continue as a regular employee of the Federal Reserve Bank of Atlanta and would receive his salary direct from you. The Board would pay for the movement of his household goods and personal effects from New Orleans to the residence established in the Washington area and return. When Mr. Stephenson has decided on the carrier which would move his household furnishings, the carrier's name should be furnished to the Board and the necessary Government bill of lading will then be sent to him in order that the shipment may be made without transportation tax.

Also, the Board would pay actual necessary traveling expenses for Mr. Stephenson and his family to Washington and return. Should he use his privately-owned automobile in travel, reimbursement would be on the basis of 12¢ per mile, plus actual additional necessary travel expense.

Recognizing that Mr. Stephenson's living expenses in Washington would be somewhat higher than in New Orleans, the Board would also pay him a per diem allowance during his temporary assignment, the amount of which can be mutually decided upon at a later date.

Mr. Malcolm C. Bryan

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The Board is appreciative of your willingness to make Mr. Stephenson's services available and hopes that the above arrangements will be satisfactory to you.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.