

609
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Minutes for November 16, 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

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Gov. Mitchell

[Handwritten initials]

Minutes of the Board of Governors of the Federal Reserve System on
Thursday, November 16, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Farrell, Director, Division of Bank
Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Kiley, Assistant Director, Division of Bank
Operations
Mr. Hostrup, Assistant Director, Division of
Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Spencer, General Assistant, Office of the
Secretary
Mr. Potter, Senior Attorney
Mr. Massey, Chief, Reserve Bank Operations
Section, Division of Research and Statistics
Mr. Schwartz, Chief, Statistical Operations
Planning, Division of Research and Statistics

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

	<u>Item No.</u>
Letter to the Federal Reserve Agent at Philadelphia approving the appointment of Edward D. Kerns as Assistant Federal Reserve Agent and Joseph B. Everman as Alternate Assistant Federal Reserve Agent.	1

11/16/61

-2-

	<u>Item No.</u>
Letter to Dupo State Savings Bank, Dupo, Illinois, approving an investment in bank premises.	2
Letter to County Bank and Trust Company of Somerset, Somerset, New Jersey, approving the establishment of a branch at 432 West Union Avenue, Bound Brook, in connection with the removal of its principal office from that address to 695 Hamilton Street, Somerset.	3
Letter to The Sumitomo Bank of California, San Francisco, California, approving the establishment of a branch at North First Street and Ayer Avenue, San Jose.	4
Letter to Wells Fargo Bank American Trust Company, San Francisco, California, approving the establishment of a branch in Auburn, either in the vicinity of the downtown area or in the vicinity of the intersection of State Highway 49, Fulweiler Avenue and Elm Avenue.	5
Letter to Chemical Bank New York Trust Company, New York, New York, granting a determination exempting it from all holding company affiliate requirements except section 23A of the Federal Reserve Act.	6

With respect to Item No. 3, it was noted that County Bank and Trust Company had twice established branches, incident to changing the location of its head office, without obtaining prior approval. It was understood that the Division of Examinations would request the Federal Reserve Bank of New York to have a representative discuss this matter with the member bank in order to obtain assurance that appropriate application would be made prior to the establishment of any branches in the future.

11/16/61

-3-

Mr. Hostrup withdrew from the meeting at this point and Mr. Thomas, Adviser to the Board, entered the room.

Reserve bank budgetary procedure (Items 7 and 8). There had been distributed a memorandum from the Division of Bank Operations dated November 3, 1961, regarding a phase of Reserve Bank budgetary procedure.

As indicated in the memorandum, the Reserve Banks had not been required to advise the Board specifically with respect to their contemplated purchase or rental of the computers and other expensive equipment being acquired to process checks and other data at high speed. Under existing procedure, the Banks had only to make a tentative provision for such equipment in their budgets if its acquisition was anticipated when the budget was prepared, or refer to it in their budget experience reports as the reason for budget deviation when such equipment was acquired without budget provision. In view of the magnitude of expenditures proposed throughout the System for computers and electronic check-processing equipment, it appeared desirable for the Board to be fully informed of the kind, purpose, and cost of such equipment, as well as the considerations leading to a Bank's proposal to purchase or rent it. Accordingly, the Division of Bank Operations recommended adoption of a procedure whereby the Reserve Banks would continue to make tentative provision in their budgets for all contemplated acquisitions of furniture and equipment and, in addition, would be asked to give the Board full particulars about any proposal to acquire

11/16/61

-4-

any unit or system of office equipment having a purchase price of as much as \$50,000 or a rental cost of as much as \$4,000 per month. A proposed letter to the Reserve Banks was submitted with the memorandum.

In commenting on the subject, Mr. Farrell noted that the Division of Bank Operation's recommendation reflected the view that the Board was not obtaining sufficient budget information from the Banks to support expenditures of the amounts contemplated for electronic equipment. Some banks were following present budget instructions, and did not volunteer additional information, while some Banks were volunteering information not required under the budget instructions. In other cases the Banks did not have full information available when the budgets were submitted, and in some instances the Banks appeared to feel that the contemplated expenditure was not large enough to warrant comment. The basic question was whether the Board felt that it should have an opportunity to review the larger contemplated expenditures for electronic equipment before a Bank committed itself.

In the course of discussion of the matter, Governor Mitchell expressed the opinion that a proposal such as the one being recommended pointed up an important issue. Unless the Board wanted to operate each of the twelve Reserve Banks, he felt that the maximum amount of responsibility should be placed on each Bank and its board of directors. If a mechanism was provided whereby the President of a Bank would come to Washington and discuss proposed equipment expenditures, there would be

11/16/61

-5-

an opportunity to shift responsibility from the Bank to the Board. Therefore, Governor Mitchell said, he was of the opinion that the Board should not adopt a policy that might put it in a position of making determinations that seemed to him properly to fall within the area of responsibility of the management of the respective Reserve Banks. Once the Board had seen a budget that provided an approximate idea of what the Banks intended to do, it seemed to him that the next step should be a post-audit. A pre-audit procedure, he noted, tends to substitute supervisory judgment for the judgment of operating personnel. The Reserve Bank Presidents had competence, they had the benefit of the advice of their directors, and they could also have the benefit of consultation with their own experts.

Governor Mills indicated that he would support the proposal of the Division of Bank Operations, which in his opinion was in the direction of orderly procedure. More important, he felt that expenditures of the kind in question fell within the scope of the Board's statutory responsibility for exercising broad supervision over the Federal Reserve Banks.

Governor Robertson cited the benefits that might be derived by the Reserve Banks from discussion with Board representatives before entering into commitments for the purchase or rental of expensive equipment, since the Banks could then give full consideration to any possible alternatives that might be suggested and arrive at courses of action that appeared likely to provide the most beneficial results. On

11/16/61

-6-

the question of fixing responsibility, he agreed that the Board should not follow a procedure that would relieve the Banks of responsibility for decisions of this kind, and that the Board should not put itself in a position of dictating decisions. However, he doubted that there would be a reluctance to submit proposals for review on a basis of mutual endeavor looking toward achievement of the best results.

After further discussion, Governor Mills expressed the opinion that in the vast majority of cases the procedure recommended by the Division of Bank Operations would constitute in effect a reporting procedure. In rare instances, however, the submission of a proposal might bring to light a factor on which the knowledge at the Board's disposal would be of help to the Bank concerned in reaching its decision.

Mr. Farrell said that this was the intent of the proposal. The thought was to assure the Board that a contemplated expenditure had been adequately considered by the Reserve Bank concerned.

At the instance of Governor King, there ensued a discussion of the placing of responsibility for Reserve Bank building projects. It was Governor King's view, in substance, that on such matters it would be appropriate to rely to a large extent on the competence of the respective Reserve Banks and their directors. In the field of computers, he was inclined to feel that there was degree of competence within the Board's organization from which the Banks could benefit. However, it was his suggestion that the proposed letter to the Reserve Banks be expanded to

11/16/61

-7-

include language making clear the view of the Board that the primary responsibility for decisions as to the use of electronic equipment rested with the management of each Bank and that there was no intention of minimizing such responsibility. This, he thought, would tend to avoid creating an impression that the Board intended to dictate decisions in this area.

It was then agreed that the proposed letter, amended in a manner such as suggested by Governor King, should be sent to the Reserve Banks. Governor Mitchell dissented, stating that he was opposed to the contemplated procedure and considered it a mistake.

A copy of the letter sent to the Presidents of the Federal Reserve Banks pursuant to this action is attached as Item No. 7.

The Board then approved a letter to the Federal Reserve Bank of St. Louis, which had been distributed with a memorandum from the Division of Bank Operations dated November 14, 1961, interposing no objection to the purchase by the Bank of the IBM 1401 computer system that it had been renting for the past several months. A copy of the letter is attached as Item No. 8.

Application of United California Bank (Items 9-11). Pursuant to the decision reached by the Board at the meeting on November 7, 1961, drafts of an order and majority and dissenting statements in the matter of the application of United California Bank, Los Angeles, California, to merge with The First National Bank of La Verne, La Verne, California, had been prepared by the Legal Division and distributed to the Board.

11/16/61

-8-

There being no objection, the issuance of the order and statements was authorized. Copies of the documents issued pursuant to this authorization are attached as Items 9 through 11.

Morgan New York State Corporation. With respect to the public proceeding scheduled to be held on December 7, 1961, in connection with the application of Morgan New York State Corporation for prior approval of action to become a bank holding company, Mr. Fauver stated that certain inquiries had been received concerning the names of persons who had asked to appear before the Board.

No objection being indicated, the release of such information was authorized.

In this connection, Mr. O'Connell suggested that the Board authorize the sending of letters to those persons who had requested to appear indicating, in essence, that the Board had granted the request but hoped that each presentation might be completed within about 10 minutes. He noted that the applicant would present a total of approximately 28 persons. Adding those other parties who had asked permission to make statements, it appeared that the proceeding might be completed in two two-hour sessions on December 7 if the time limitation he had mentioned was specified.

In discussion, Governor Robertson expressed the view that this time limitation should not be specified in the case of any member of the Congress who sought to appear before the Board, and there was general agreement with this view. With this proviso, the sending of letters along the lines suggested by Mr. O'Connell was authorized.

11/16/61

-9-

The meeting then adjourned.

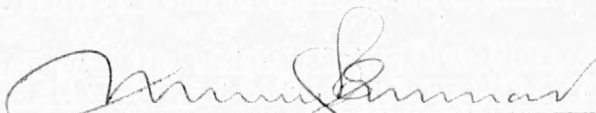
Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Memorandum from the General Counsel recommending acceptance of the resignation of Paula G. Hauprich, Secretary in the Legal Division, effective at the close of business November 24, 1961.

Memorandum from Henry Edmonds, Cafeteria Laborer, Division of Administrative Services, requesting permission to accept part-time employment with Allegheny Airlines for evening work.

Letter to the Federal Reserve Bank of Philadelphia (attached Item No. 12) approving the appointment of Alan Howard Sonnheim as assistant examiner.

Letter to the Federal Reserve Bank of St. Louis (attached Item No. 13) approving the appointment of Maurice L. Mueller, James K. Hartley, and Harry L. Rea as examiners.


Secretary

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

Item No. 1
11/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 16, 1961



Mr. Henderson Supplee, Jr.,
Chairman of the Board and
Federal Reserve Agent,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pennsylvania.

Dear Mr. Supplee:

In accordance with the request contained in your letter of November 2, 1961, the Board of Governors approves the appointments of Mr. Edward D. Kerns as Assistant Federal Reserve Agent and of Mr. Joseph B. Everman as Alternate Assistant Federal Reserve Agent, effective January 1, 1962. It is understood that these appointments are occasioned by the retirement at the end of December of Mr. J. Frank Reh fuss, the present Assistant Federal Reserve Agent at your Bank.

This approval is given with the understanding that these appointees will be solely responsible to the Federal Reserve Agent and the Board of Governors for the proper performance of their duties, except that, during the absence or disability of the Federal Reserve Agent, or a vacancy in that office, the Assistant Federal Reserve Agent will be responsible solely to the Board of Governors and the Alternate Assistant Federal Reserve Agent will be responsible to the Assistant Federal Reserve Agent and the Board of Governors.

When not engaged in the performance of their duties as Assistant and Alternate Assistant Federal Reserve Agents, respectively, the appointees may, with the approval of the Federal Reserve Agent and the President, perform such work for the Bank as will not be inconsistent with their duties as Assistant and Alternate Assistant Federal Reserve Agents.

It will be appreciated if these new appointees are fully informed of the importance of their responsibilities as members of

Mr. Supplee - 2

the staff of the Federal Reserve Agent and the need for maintenance of independence from the operations of the Bank in the discharge of these responsibilities.

It is assumed that Messrs. Kerns and Everman will execute the usual Oaths of Office, which will be forwarded to the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 2
11/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 16, 1961



Board of Directors,
Dupo State Savings Bank,
Dupo, Illinois.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment in bank premises by Dupo State Savings Bank, Dupo, Illinois, of \$5,421.73.

This approval is in accordance with and for the purposes stated in your letter dated October 3, 1961, to the Federal Reserve Bank of St. Louis.

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
11/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 16, 1961



Board of Directors,
County Bank and Trust Company
of Somerset,
Somerset, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by County Bank and Trust Company of Somerset, Somerset, New Jersey, at 432 West Union Avenue, Bound Brook, New Jersey, in connection with the removal of its principal office from that address to its branch office located at 695 Hamilton Street, Somerset, New Jersey.

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
11/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 16, 1961

Board of Directors,
The Sumitomo Bank of California,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch in the vicinity of the intersection of North First Street and Ayer Avenue, San Jose, Santa Clara County, California, by The Sumitomo Bank of California, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



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

Item No. 5
11/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 16, 1961

Board of Directors,
Wells Fargo Bank American
Trust Company,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch either in the vicinity of the downtown area of Auburn, or in the vicinity of the intersection of State Highway 49, Fulweiler and Elm Avenues, Auburn, Placer County, California, by Wells Fargo Bank American Trust Company, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



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

Item No. 6
11/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 17, 1961



Mr. Harvey A. Basham, Jr., Vice President,
Chemical Bank New York Trust Company,
30 Broad Street,
New York 15, New York.

Dear Mr. Basham:

This refers to the request, submitted through the Federal Reserve Bank of New York, for a determination by the Board of Governors of the Federal Reserve System, as to the status of Chemical Bank New York Trust Company as a holding company affiliate.

From information submitted, the Board understands that Chemical Bank New York Trust Company, in the course of its trust business, has accepted an appointment as co-trustee under a Collateral Trust Indenture under which securities, including more than 50 per cent of the shares of capital stock of several banks, have been pledged to secure the payment of certain bonds of Financial General Corporation; that the Trust Company has no rights or powers with respect to such stock except to execute and deliver waivers of notices of stockholders' meetings, powers of attorney, or proxies to persons named by Financial General Corporation, or in the event of default of such bonds to vote or give consents with respect to such stock as directed by the holders of a majority in principal amount of the bonds then outstanding; that the Trust Company does not own or control directly or indirectly in any other fiduciary capacity stock of any other bank representing more than 5 per cent of the total outstanding shares of capital stock of such banking institution; and that the Trust Company does not in its own right own, manage or control any banking institution.

In view of these facts, the Board has determined that Chemical Bank New York Trust Company is not engaged directly or indirectly as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933; and, accordingly, Chemical Bank New York Trust Company is not deemed to be a holding company affiliate except for the purposes of Section 23A of the Federal Reserve Act.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. Harvey A. Basham, Jr.

-2-

If, however, the facts should at any time indicate that Chemical Bank New York Trust Company might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make a further determination of this matter at any time on the basis of the then existing facts. Particularly, should future acquisitions by the Trust Company result in its attaining a position whereby the Board may determine that the company is engaged as a business in the holding of bank stock, or the managing or controlling of banks, the determination herein granted may be rescinded.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

S-1816
Item No. 7
11/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 16, 1961.



Dear Sir:

The movement of the Federal Reserve Banks toward the acquisition of computers and electronic check processing equipment has prompted the Board to re-examine the procedures under which expenditures for such equipment are reported to it. While some Banks have voluntarily submitted to the Board rather complete information regarding their proposals to purchase or rent data processing equipment, there is now no stated requirement for such submissions. Under the present budgetary procedure, expenditures for this purpose need only be tentatively provided for in the budget for furniture and equipment purchases or rentals if they are anticipated when the budget is prepared or subsequently explained in the budget experience report if they were incurred without having been provided for in the budget.

In view of the costly nature of electronic equipment, the Board believes that it should be fully informed, before any firm commitments are made, as to the considerations leading to a decision to purchase or rent such equipment. Experience indicates that the present budgetary reporting procedures are not entirely satisfactory in this regard, mainly because the desired information is not available when the budget is prepared and the Board therefore does not always have an opportunity to give the matter appropriate consideration before the expenditures are made.

Under somewhat similar circumstances, the Board has stipulated that its approval of budgetary provisions for major repairs and alterations to Bank buildings should not be construed as approval of the building project and that the Board should be advised specifically of such projects before they are undertaken.

The Board recognizes that the primary responsibility for decisions with respect to the use of electronic equipment rests with the management of each Reserve Bank, and it has no intention of minimizing this responsibility. The Board feels, however, that a

procedure generally similar to that followed for building projects would be desirable in connection with proposals to rent or purchase costly electronic equipment. Accordingly, it will be appreciated if your Bank will hereafter--

- (1) Continue to make the usual budgetary provision for all purchases or rentals of furniture and equipment that can be foreseen when the budget is prepared.
- (2) Advise the Board specifically, before making commitments that cannot be withdrawn without penalty to the Bank, of intentions to acquire any unit or system of office equipment having a purchase price of as much as \$50,000 or a rental cost of as much as \$4,000 per month. The information in this connection should indicate the kind and cost of the equipment, the benefits expected from its acquisition, and the effect it will have on operating expenses. Such information might well be a summary of the material presented to the Bank's board of directors at the time the acquisition was approved.
- (3) Observe the foregoing procedures in any case where a decision has been made to purchase equipment that was previously acquired on a rental basis.

Very truly yours,



Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 8
11/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 16, 1961.

Mr. D. C. Johns, President,
Federal Reserve Bank of St. Louis,
St. Louis 66, Missouri.

Dear Mr. Johns:

Referring to your letter of November 7, 1961, the Board has noted without objection your proposal to purchase on January 1, 1962, the IBM 1401 computer system which has been rented by the Bank since May 1, 1961.

It is understood from your letter and other information submitted in connection with your informal discussion of the Bank's 1962 budget with the Board's Budget Committee on August 1 that--

(1) The cost of the computer will be \$148,269, after applying \$19,166 of the rental costs since May 1, 1961, against the purchase price of \$167,435.

(2) The economic feasibility of the computer system has been demonstrated to the Bank's satisfaction on the basis of experience with it since May 1, and the Bank is also convinced of the economic feasibility of purchasing the equipment rather than continuing to rent it.

(3) The purchase of the equipment has been approved by the Bank's Board of Directors and is provided for in the 1962 budget.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary



Item No. 9
11/16/61

UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C.

: In the Matter of the Application of :
: UNITED CALIFORNIA BANK :
: for prior consent to merge with :
: The First National Bank of La Verne :
: -----

ORDER DENYING APPLICATION FOR APPROVAL OF MERGER

There has been filed with the Board of Governors, pursuant to section 18(c) of the Federal Deposit Insurance Act (12 U.S.C. 1828(c)), an application for the Board's prior consent to the merger of The First National Bank of La Verne, La Verne, California, into and with United California Bank, Los Angeles, California, under the charter and title of the latter. Upon consideration of all relevant materials in the light of the factors set forth in said section 18(c), including reports by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Department of Justice on the competitive factors involved in the proposed merger,

IT IS HEREBY ORDERED, for the reasons set forth in a Statement of the Board of this date, that the said application be and hereby is denied.

Dated at Washington, D. C., this 16th day of November, 1961.

By order of the Board of Governors.

Voting for this action: Governors Mills, Robertson, King, and Mitchell.

Voting against this action: Chairman Martin and Governor Shepardson.

Absent and not voting: Governor Balderston.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

APPLICATION BY UNITED CALIFORNIA BANK
FOR PRIOR CONSENT TO MERGE WITH
THE FIRST NATIONAL BANK OF LA VERNE

STATEMENT

United California Bank, Los Angeles, California ("United"), has applied, pursuant to section 18(c) of the Federal Deposit Insurance Act, for the Board's prior approval of the merger of The First National Bank of La Verne, La Verne, California ("First National"), into and with United, under the title and charter of United. The proposal contemplates that the present office of First National would be operated as a branch of the resulting bank.

Under the law, the Board is required to consider (1) the financial history and condition of each of the banks involved, (2) the adequacy of their capital structures, (3) their future earnings prospects, (4) the general character of their management, (5) the convenience and needs of the community to be served, (6) whether the resulting bank's corporate powers would be consistent with the purposes of the Federal Deposit Insurance Act, and (7) the effect of the transaction on competition (including any tendency toward monopoly). The Board may not approve the transaction unless, after considering all these factors, it finds the transaction to be in the public interest.

For convenience, the first four factors and the sixth factor may be considered together as "banking factors". The fifth and seventh factors require separate consideration.

-2-

Banking factors. - The financial history and condition of both banks are satisfactory. The capital structure, the future earnings prospects, and the management of United are good, and the same would be true of the resulting bank. First National's capital structure is reasonably adequate; its earnings record has been good; and, in view of the rapid growth of the community, its future prospects are satisfactory. Its management is competent; and, while it has been asserted that the bank has a problem of management succession, it has not been shown to the Board's satisfaction that qualified management cannot be obtained from the bank's present personnel or from outside sources. There is no evidence that the corporate powers of the resulting bank would in any way be inconsistent with the Federal Deposit Insurance Act.

Needs and convenience of community. - First National, with total deposits of about \$6.5 million, is the only bank in the town of La Verne (population about 6,500), which is situated at the eastern edge of the Los Angeles metropolitan area, about 35 miles from downtown Los Angeles. The bank's primary service area - the area from which it derives 75 per cent or more of its deposits of individuals, partnerships, and corporations ("IPC deposits") - consists of the communities of La Verne, San Dimas, and Claremont and the northern portion of Pomona, together with portions of unincorporated Los Angeles County north of La Verne and Claremont. The population of the primary service area is about 27,000.

It appears that First National's primary service area is experiencing rapid residential growth and that the population of the area is likely to increase substantially in the next two decades. However, there is no evidence that the banking needs of the area are

not now being adequately met, or will not be met in the future, by banks operating in the area; nor is it clear that First National, as a unit bank, will not be able to grow and expand its facilities in a degree commensurate with the growth of the community. The relatively small "loan limit" of the bank (\$40,000) should not be a serious obstacle, since it appears that the anticipated growth of the community is largely residential and therefore should not result in numerous demands for large loans. Such demands as may arise for credit in excess of the bank's lending limit can be met by other banking offices in the area or through participations with banks that are correspondents of First National.

Competition. - The offices of United nearest to First National's office in La Verne are located at Pomona, four miles south, at Covina, six miles west, and at Ontario, nine miles east. The primary service areas of these offices do not overlap the primary service area of First National. However, about 4 per cent of First National's total deposits are derived from United's total service area; and to this small extent the merger would eliminate some existing banking competition.

Within First National's primary service area there are three offices of Bank of America N.T.& S.A., and two offices of Security First National Bank of Los Angeles. In terms of deposits, First National is the smallest bank in the area, with 25 per cent of total area deposits, as compared with 45 per cent for Bank of America and

-4-

about 30 per cent for Security First. In terms of loans, however, First National ranks first in the area, with about 41.5 per cent of total loans, as compared with about 39 per cent for Bank of America and 20 per cent for Security First National.

Although the primary service areas of First National and of United's offices do not overlap, they are contiguous; and it may reasonably be expected that potentially, if not presently, banks in the combined La Verne-Pomona area will compete with each other to some extent. Within that area, there are now 15 offices of six banks (excluding a seasonal office). In addition to First National's office in La Verne and United's three offices in Pomona, Bank of America has six offices in the area, Security First has three, and First Western Bank and Citizens National Bank each has one. Within this area, Bank of America has about 40 per cent of total deposits, United about 35 per cent, and Security First about 14 per cent. Consummation of the proposed merger would increase United's percentage to 42.5 per cent. As to total loans within the area, United and Bank of America presently have about 35 per cent each; the merger would increase United's percentage to 43 per cent.

First National is the only remaining unit bank in the combined La Verne-Pomona area. Its elimination as a consequence of the proposed merger would, in effect, deprive residents of that area of the opportunity to choose between dealing with a local unit bank and dealing with a branch of a large banking organization.

-5-

The proposed merger would not significantly increase United's percentage of total deposits of all commercial banks in the State of California (at present 8 per cent) or in the Los Angeles metropolitan area. However, it would, in the Board's judgment, have an adverse potential effect upon banking competition, particularly in the La Verne-Pomona area and in the Los Angeles metropolitan area. Within the former area, Bank of America, Security First, and United together hold nearly 90 per cent of total deposits; within the latter area they hold about 78 per cent of total deposits. Consummation of the merger here proposed could only strengthen the present concentration of banking resources under the control of these three banks, give further impetus to the merger trend in these areas, and thereby tend to discourage the formation of new unit banks.

Summary and conclusions. - On the basis of the foregoing, the Board concludes that, while the proposed merger would presumably be a means of solving First National's problem of management succession and would provide a broader range of banking services than those now provided by First National, it is nevertheless not clear that First National, as a unit bank, cannot solve its problem of management succession and expand its services in a manner commensurate with the growth of its community or that the community presently lacks adequate banking facilities. The Board further concludes that, by eliminating the only remaining unit bank in the La Verne-Pomona area, the proposed

-6-

transaction would have an adverse effect upon potential banking competition in that area as well as in the larger Los Angeles metropolitan area. These adverse competitive effects, in the Board's judgment, outweigh any benefits that might be expected to result from the merger. For these reasons, the Board is unable to find that the proposed merger would be in the public interest.

November 16, 1961.

DISSENTING STATEMENT OF CHAIRMAN MARTIN AND GOVERNOR SHEPARDSON

We recognize that United California Bank and two other large branch banking organizations already control a large proportion of the banking resources in the Los Angeles metropolitan area and that their continued expansion, if unchecked, might gradually lessen the number of local unit banks in that area. However, we do not regard this possibility as itself a sufficient ground for disapproving the present merger which, in our opinion, would intensify rather than lessen competition in the La Verne-Pomona area and at the same time provide a growing community with expanded banking services. We would approve the application.

November 16, 1961

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

Item No. 12
11/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 16, 1961

CONFIDENTIAL (FR)

Mr. Joseph R. Campbell, Vice President,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pennsylvania.

Dear Mr. Campbell:

In accordance with the request contained in your letter of November 3, 1961, the Board approves the appointment of Alan Howard Sonnheim as an assistant examiner for the Federal Reserve Bank of Philadelphia. Please advise the effective date of the appointment.

It is noted that Mr. Sonnheim is indebted to The Philadelphia National Bank, Philadelphia, Pennsylvania, in the amount of \$10,300 for the purchase of a home, and to Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania, a State member bank, in the amount of \$150. Accordingly, the Board's approval of Mr. Sonnheim's appointment is given with the understanding that he will not participate in the examination of these banks until his indebtedness has been liquidated.

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. 13
11/16/61

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 16, 1961

Mr. George E. Kroner, Vice President,
Federal Reserve Bank of St. Louis,
St. Louis 66, Missouri.

Dear Mr. Kroner:

In accordance with the request contained in your letter of November 3, 1961, the Board approves the appointment of Maurice L. Mueller, James K. Hartley, and Harry L. Rea, at present assistant examiners, as examiners for the Federal Reserve Bank of St. Louis, effective January 1, 1962.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

