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Minutes for November 28, 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

R

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 28, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Molony, Assistant to the Board  
Mr. Fauver, Assistant to the Board  
Mr. Solomon, Director, Division of Examinations  
Mr. Johnson, Director, Division of Personnel Administration  
Mr. Hexter, Assistant General Counsel  
Mr. Kiley, Assistant Director, Division of Bank Operations  
Mr. Smith, Assistant Director, Division of Examinations  
Mr. Leavitt, Assistant Director, Division of Examinations  
Mr. Sprecher, Assistant Director, Division of Personnel Administration  
Mr. Landry, Assistant to the Secretary

Discount rates. The establishment without change by the Federal Reserve Banks of Boston and Atlanta on November 27, 1961, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Report on competitive factors (Detroit-Livonia, Michigan).

Under date of November 21, 1961, distribution had been made of a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of National Bank of Detroit, Detroit, Michigan, and Bank of Livonia, Livonia, Michigan.

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After discussion the report, which contained the following conclusion, was approved unanimously for transmission to the Comptroller:

While Bank of Livonia is significantly smaller than National Bank of Detroit, it competes effectively for certain business and also provides the city of Livonia with an alternative source of banking services. Consummation of the proposed merger would eliminate a significant amount of competition and would give National Bank of Detroit a monopoly of banking outlets within the corporate limits of Livonia, a situation considered undesirable in so large a city.

Question regarding votes on competitive factor report (Item No. 1).

In a letter dated November 21, 1961, the Comptroller of the Currency asked to be advised of the votes of the individual members of the Board on the report on competitive factors submitted on June 22, 1961, in connection with the proposed merger of the National Bank of Westchester, White Plains, New York, and The First National City Bank of New York, New York. The letter formalized a request previously received informally and discussed at the meeting on November 20, 1961, as a result of which discussion the Comptroller's Office was advised informally that the requested information would not be furnished. The draft reply that had been distributed, which was based on the aforementioned discussion and discussion at the meeting on November 22, 1961, noted that upon receipt of the informal inquiry the Board had reached the conclusion that a distinction should be drawn between those cases in which the Board renders decisions as a quasi-judicial body and those in which it renders advisory reports. In this connection, the letter would refer to the recent adoption by the Board of a procedure whereby each of its decisions on bank merger applications

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would henceforth be announced publicly through the issuance of an order and supporting statement and the votes of the Board members would be made public. The letter would go on to say that since reports on competitive factors were advisory documents designed to present pertinent data relative to a specific competitive situation, it was felt that such a report should appropriately be regarded as a document submitted by the Board as such, pursuant to the requirements of section 18(c) of the Federal Deposit Insurance Act, and that accordingly, upon reconsideration of the matter following receipt of the Comptroller's letter, the Board remained of the opinion that it would not serve a useful purpose to provide the requested information.

During a discussion, several suggestions were made for changes in the draft letter, following which a letter in the form attached as Item No. 1 was approved unanimously for transmission to the Comptroller of the Currency.

Letter from Comptroller re proposed merger (Item No. 2). There had been received under date of November 21, 1961, a letter from the Comptroller of the Currency advising that a public hearing had been ordered to be held in connection with the proposed merger of the National Bank of Westchester, White Plains, New York, into The First National City Bank of New York, New York, and indicating that the Board might appear or submit a statement at that hearing or, if desired, file a brief in rebuttal to anything adduced by the parties. The letter

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further stated that copies of the competitive factor report submitted by the Board in the case in question would be made available to the banks concerned and that it was the intention of the Comptroller of the Currency in the future to furnish merger applicants with copies of such reports. Copies of a draft of reply had been distributed with a memorandum from Mr. Hackley dated November 27, 1961.

It was the recommendation of the Legal Division, with respect to the first question raised in the letter, that the Comptroller be advised that since the Board's competitive factor report reflected its views only with regard to this aspect of the proposed merger, and since the Board was not a party to the matter, there would appear to be no reason why the Board should be represented at the forthcoming hearing to be held by the Comptroller.

With respect to the question of furnishing merger applicants with copies of competitive factor reports submitted to the Board by other agencies, the opinion was expressed in the memorandum from the Legal Division that the arguments in favor of adopting the practice appeared to outweigh those against it. This position would be reflected in a paragraph of the draft of reply. Should the Board not be disposed to follow the Comptroller's practice in this regard, there was provided for possible use an alternative paragraph to that effect.

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Chairman Martin inquired as to the Board's preference between the first alternative paragraph, which would ask the Comptroller for two additional copies of his competitive factor reports for transmission hereafter to applicants to the Board under the merger law, and the second alternative paragraph, which would inform the Comptroller that the Board did not plan to follow the practice.

Governor Robertson stated reasons why in his opinion it might be unwise for the Board to follow the practice announced by the Comptroller. In this connection, he cited the danger of confusing the public, which might easily misconstrue the reports on competitive factors as recommendations for the approval or disapproval of mergers; the danger of revealing confidential information, which could lead to the preparation of watered-down reports; and the public impression that might be created that the Federal bank supervisory agencies were pitting themselves against each other.

Governor Robertson then suggested a concluding paragraph for the proposed letter to the Comptroller that would acquiesce in the request for additional copies of the Board's reports on competitive factors, but would inform the Comptroller that the Board did not intend to follow this practice with respect to merger applications within its own jurisdiction.

A general discussion ensued that touched upon the procedure followed by the Board in cases where requests had been received for

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competitive factor reports submitted to the Board by the other Federal bank supervisory agencies or the Department of Justice. (In such cases the Board had referred the inquirer to the agency that prepared the report.) Reference was also made to the procedure, followed in a few instances where litigation was involved, of allowing the Justice Department, with the Comptroller's permission, to use the Board's competitive factor reports in evidence and making available to merger applicants copies of these reports.

It was noted that although in a few instances in the past the Board's competitive factor reports had made reference to factors such as the management of banks concerned in merger applications and had occasionally used branch deposit figures, an effort had been made recently to avoid the use of confidential material.

The comment then was made that there was an additional alternative reply that the Board might wish to consider. The Board could indicate that it would accede to the Comptroller's request for additional copies of its reports on competitive factors, which the Comptroller presumably would transmit to the applicant banks, but the Board could refrain from disclosing in the letter what practice it might decide to follow with respect to the use of competitive factor reports submitted to it in cases of applications falling within the Board's jurisdiction. Thus, the Board could decide in due course whether or not it would want to furnish copies of such reports to applicants.

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There being general agreement with this suggestion, and certain additional suggestions for modification of the proposed reply to the Comptroller having been agreed upon, unanimous approval was given to a reply in the form attached as Item No. 2.

It was also decided to include in each of the Board's competitive factor reports hereafter a note to the effect that, as required by section 18(c) of the Federal Deposit Insurance Act, the report was limited to "a report on the competitive factors involved," and was not a recommendation as to whether the application should be approved or disapproved.

Messrs. Thomas, Adviser to the Board, Noyes, Director, and Koch, Adviser, Division of Research and Statistics, joined the meeting during the foregoing discussion.

Letter to Professor Edwards (Item No. 3). There had been distributed with a memorandum from Mr. Solomon dated November 27, 1961, a draft of reply to Professor Edward E. Edwards of Indiana University regarding Federal Reserve policy in connection with capital stock and surplus that should be maintained by commercial banks. Under date of November 15, 1961, Professor Edwards had addressed letters to several Federal Reserve Banks on this subject, noting that he was especially concerned with "whether a bank that is aggressive in pushing savings deposit growth (and in loaning the funds obtained thereby) is under any supervisory pressure to add to its capital and surplus accounts." As

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noted in the memorandum, President Ellis, Chairman of the Committee on Bank Supervision of the Presidents' Conference, had suggested to Mr. Solomon that the Board make a single reply to the letters from Professor Edwards.

Following discussion, during which certain minor modifications in the language of the letter were agreed upon, a reply to Professor Edwards in the form attached as Item No. 3 was approved unanimously, with the understanding that a copy would be sent to each Federal Reserve Bank.

Mr. Leavitt then withdrew from the meeting.

Regulations and procedures on nondiscrimination (Item No. 4).

Copies had been distributed, with a memorandum from Mr. Sherman, as Employment Policy Officer, dated November 22, 1961, of a revised draft of the Board's regulations and procedures relating to nondiscrimination.

Mr. Sherman noted that according to the understanding at the meeting on August 31, 1961, a letter was sent to the President's Committee on Equal Employment Opportunity transmitting a draft revision of the Board's regulations and procedures. Counsel for the Committee had reviewed the draft and had suggested a number of minor changes, as indicated on the new revised draft of regulations, principally because it was felt desirable to make the regulations of the various Government agencies as nearly uniform as possible.

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It was recommended, Mr. Sherman said, that the Board approve incorporation of these changes into the proposed regulations, with the understanding that the new draft would then be returned to the Committee for further review and comment. He added that the changes referred to had been discussed with the Legal Division and the Division of Personnel Administration.

Following a discussion, incorporation of the suggested changes into the proposed regulations was approved unanimously. A copy of the letter sent to the President's Committee on Equal Employment Opportunity pursuant to this action is attached as Item No. 4.

Messrs. Thomas, Noyes, Johnson, Koch, and Sprecher then withdrew from the meeting.

Auditing function in the Federal Reserve Banks. There had been distributed under date of November 22, 1961, a packet of materials for use in connection with topic 8.b., "Auditing Function", on the agenda for the meeting of the Conference of Chairmen of the Federal Reserve Banks to be held in the Board's offices November 30-December 1, 1961. Reference was made in these materials to the study of the place of the auditing function in the Reserve Banks that was made by the Chairmen's Conference in October 1942, and to the action at the meeting of the Conference on October 29, 1945, approving a statement of suggested responsibilities and duties of the Audit Review Committee. For reasons stated in the distributed material, including developments relating to

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the uses of the internal auditing function and the length of time that had passed since 1945, the suggestion was made that the Reserve Bank directors might want to have their Audit Review Committees review in depth the present state of the auditing function in their respective Banks.

Governor Robertson brought out in preliminary comments that the purpose in distributing this material to the Chairmen and Deputy Chairmen during the forthcoming Conference would be to focus their attention on the need for improvement of the audit function, particularly in view of the increased reliance being placed on the internal audit staffs under the revised procedures for Board examinations of the Federal Reserve Banks, and therefore of getting the best possible personnel for performance of the auditing function.

In discussion it was brought out, in response to a question from Governor Shepardson, that the emphasis in the materials at hand was not so much on the status of the General Auditors at the Reserve Banks as on the quality and performance of the audit staff as a whole. With respect to the status of the General Auditors, some improvement had been noted, but it was felt that certain of the General Auditors were still undergraded. In elaboration of this latter point, it was stated that the majority of the General Auditors were in salary group B, with three in group A and only two in group C. Discussion at this year's meetings of the Board's Budget Committee with the respective Reserve Bank Presidents

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also indicated that considerable influence continued to be exerted by the staffs of the Banks with respect to the salaries of the General Auditors and their staffs. As to the situation at individual Banks, the point of view was expressed that this subject might appropriately be discussed with the Chairmen of the Banks concerned rather than in the general forum of a Chairmen's Conference.

Following further discussion it was agreed that the materials concerning the auditing function would be distributed at the forthcoming meeting of the Conference of Chairmen. In this connection, Chairman Martin also made the comment that this general topic should be placed on the agenda for discussion at future conferences as a regular matter.

Messrs. Kiley and Smith withdrew from the meeting at this point.

Western Bancorporation. Mr. Hexter reported a meeting in the Board's offices yesterday between members of the Board's staff and representatives of Western Bancorporation, Los Angeles, California, regarding a proposal, disclosed by the visitors, for divestment by the holding company of its stock of First Western Bank and Trust Company, Los Angeles, California, which according to a recent agreement between the holding company and the Department of Justice was to take place within two years and not more than six years from the date of the agreement. Under the plan envisaged at present, Mr. Hexter said, First Western Bank and Trust Company would merge into Central Valley National Bank of Oakland, California, and Western Bancorporation would not own

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stock of the resulting institution thereafter. Under the plan, additional stock of the Oakland bank would be sold to the public and the cash proceeds turned over to the stockholders of Western Bancorporation and to other stockholders in return for their shares in First Western Bank and Trust Company. Mr. Hexter said that the visitors had inquired as to the Board's responsibilities under such a plan, in the light of Board approval on January 19, 1961, of the application of Firstamerica Corporation (predecessor to Western Bancorporation), Los Angeles, California, for prior approval of acquisition of shares of First Western Bank and Trust Company. According to Mr. Hexter, the staff had replied that no action by the Board seemed called for under the proposed plan aside from the rendering of a report to the Comptroller of the Currency on the competitive factors involved in the proposed merger. With respect to another feature of the plan whereby divestment of stock in First Western Bank and Trust Company by the holding company would occur within less than two years, no Board responsibility appeared to be involved.

The meeting then adjourned.

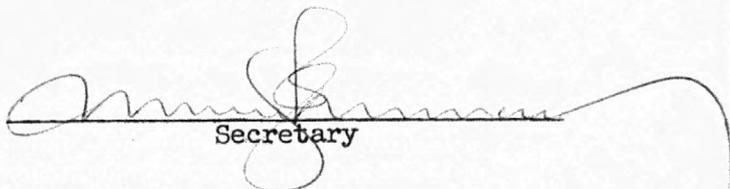
Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Philadelphia (attached Item No. 5) approving the appointment of Edward G. Rutizer as assistant examiner.

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Letter to Professor Edwin L. Stevens confirming arrangements made with him by the Division of Personnel Administration to conduct a 20-hour course in effective speaking as an activity of the Employee Training and Development Program beginning March 21, 1962, with compensation in the amount of \$500 to be paid at the completion of the course.



Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 1  
11/28/61

OFFICE OF THE CHAIRMAN

November 28, 1961

The Honorable James J. Saxon,  
Comptroller of the Currency,  
Treasury Department,  
Washington 25, D. C.

Dear Mr. Comptroller:

This is in reply to your letter of November 21, 1961, in which you asked to be advised of the votes of the individual members of the Board of Governors on the report on competitive factors submitted by the Board to the Comptroller of the Currency on June 22, 1961, in connection with the proposed merger of the National Bank of Westchester, White Plains, New York, and The First National City Bank of New York, New York.

Upon being advised of your previous informal inquiry in this connection, the Board reached the conclusion that a distinction should be drawn between those cases in which the Board renders decisions as a quasi-judicial body and those cases in which the Board renders advisory reports, such as reports on competitive factors, on matters as to which the decision falls within the jurisdiction of another agency. Thus, in the case of bank merger applications falling within the Board's jurisdiction, the Board recently has adopted a procedure whereby each of its decisions will be announced publicly through the issuance of an order and supporting statement, and the votes of the members of the Board on the action taken will be made public.

In contrast, reports to other agencies on competitive factors relating to applications before those agencies for decision are advisory documents, designed to present pertinent data relative to the specific competitive situation. The approval and transmission of such a report does not constitute a recommendation as to whether or not a proposed merger should be approved.

In these circumstances, it is felt that a report on competitive factors should appropriately be regarded as a document submitted by the Board as such, pursuant to the requirements of Section 18(c) of the Federal Deposit Insurance Act. Accordingly,

The Honorable James J. Saxon

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upon reconsideration of the matter following receipt of your letter, the Board remains of the opinion that it would not serve a useful purpose to provide the requested information.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

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

Item No. 2  
11/28/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



November 28, 1961

The Honorable James J. Saxon,  
Comptroller of the Currency,  
Washington 25, D. C.

Dear Mr. Comptroller:

This refers to your letter of November 21, 1961, advising that you have ordered a public hearing to be held in connection with the proposed merger of the National Bank of Westchester, White Plains, New York, into The First National City Bank of New York, and indicating that the Board may appear or submit a statement at that hearing or, if desired, file a brief in rebuttal to anything adduced by the parties.

The Board's report with respect to the competitive factors involved in this proposed merger was furnished to your Office, pursuant to the requirement of section 18(c) of the Federal Deposit Insurance Act. Having thus discharged its statutory responsibility, the Board feels that it would not be appropriate for it to express any view as to whether the proposed merger should be approved or for any representatives of the Board to appear or make representations at the forthcoming hearing in this case.

It is noted from your letter that copies of the competitive factor report submitted by the Board in this case will be made available to the banks concerned and that it is your intention in the future to furnish merger applicants with copies of such reports. Accordingly, in the future the Board will furnish your Office in each case with two additional copies of the Board's report, as requested.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 3  
11/28/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

November 29, 1961

Mr. Edward E. Edwards,  
Professor of Finance,  
Indiana University,  
Bloomington, Indiana.

Dear Mr. Edwards:

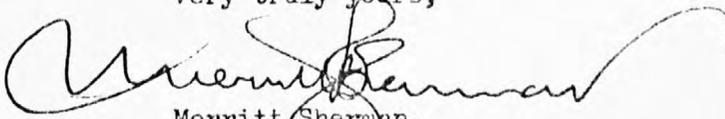
Reference is made to your letters of November 15, 1961, addressed to several Federal Reserve Banks, regarding policy in connection with capital stock and surplus which should be maintained by commercial banks, and stating that you are not particularly interested in total capital accounts. In the interest of simplicity, and in order to avoid duplication, this will serve as a reply to all your letters.

In response to your specific question, it may be said that a bank is expected to maintain capital stock and surplus adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities; however, other capital accounts such as undivided profits and reserves have a bearing on the ability of a bank to bear risks and hence on the amount of capital stock and surplus needed by a bank. If a bank is deemed to have inadequate total capital accounts, such a condition is sometimes referred to as an inadequacy of capital and surplus, partly because the usual method of correction would be through an increase in capital stock or surplus, or both.

Most banks are anxious to increase their surplus accounts and often their capital stock as their legal loaning limits under applicable statutes are determined by a specified percentage of capital stock and surplus. The total amount of real estate loans that a national bank may make is also limited, subject to certain exceptions, to the amount of its capital stock and surplus or 60 per cent of its time and savings deposits, whichever is greater.

National banks must meet the minimum capital requirements of section 5138, U.S.R.S. (U.S.C., Title 12, sec. 51) for organizing. These requirements are based on the population of the community in which the bank is located. Each State bank must meet the legal requirements of the State in which it is organized, and such requirements vary from State to State.

Very truly yours,



Merritt Sherman,  
Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 4  
11/28/61

OFFICE OF THE CHAIRMAN

November 28, 1961

Mr. Jerry R. Holleman,  
Executive Vice-Chairman,  
The President's Committee on  
Equal Employment Opportunity,  
Washington 25, D. C.

Dear Mr. Holleman:

In a letter dated September 1, 1961, a revised draft of the Board's regulations and procedures relating to nondiscrimination in employment was forwarded to The President's Committee on Equal Employment Opportunity. The revision was discussed with Mr. Koriath, Counsel of the Committee, on November 17 and a number of changes have been made at his suggestion. The revised draft, which also indicates the changes from that submitted to you on September 1, is enclosed for your review and comment.

As indicated in our September 1 letter, when the revised regulations and procedures have been approved a copy will be sent to each employee.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure

(In a letter dated January 2, 1962, Mr. Holleman indicated his approval of the revised regulations and procedures. A copy of the revised regulations was sent to each member of the Board's staff with a covering memorandum from the Board's Employment Policy Officer dated January 22, 1962.)

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

Item No. 5  
11/28/61

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

November 28, 1961



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 14, 1961, the Board approves the appointment of Edward G. Rutizer as an assistant examiner for the Federal Reserve Bank of Philadelphia. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.