The attached minutes of the meeting of the Board of Governors of the Federal Reserve System on December 12, 1961, which you have previously initialed, have been amended at the request of Governor Robertson to revise his comments appearing at the top of page 13 and at the end of the second paragraph on page 21.

If you approve these minutes as amended, please initial below.

Chairman Martin

Governor Mills

FR 608
Rev. 9/61

Minutes for December 12, 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 proposed to place in the record of policy actions required to be kept under the provisions of section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 30	Amendments to Regulation Q, Payment of Interest on Deposits, and D, Reserves of Member Banks

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Gov. Mitchell

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, December 12, 1961. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research and Statistics
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Furth, Adviser, Division of International Finance
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Potter, Senior Attorney
Mr. Veret, Attorney
Mr. Thompson, Supervisory Review Examiner, Division of Examinations
Messrs. Achor, Guth, and McClintock, Review Examiners, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on December 11, 1961, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

Application to organize Edge corporation (Item No. 1). There had been distributed a memorandum from the Division of Examinations concerning the application of The First National City Bank of New York, New York, New York, for permission to organize a corporation under section 25(a) of the Federal Reserve Act, to be known as First National City Overseas Investment Corporation, for the purpose of engaging in international or foreign financial operations other than banking.

Pursuant to the favorable recommendation contained in the memorandum, unanimous approval was given to a letter to First National City Bank, a copy of which is attached as Item No. 1, transmitting a preliminary permit authorizing First National City Overseas Investment Corporation to exercise powers incidental and preliminary to its organization.

Messrs. Goodman, Furth, and Potter then withdrew from the meeting.

Report on competitive factors (Meadville-Linesville, Pennsylvania). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed purchase of assets and assumption of liabilities of Farmers and Merchants Bank of Linesville, Linesville, Pennsylvania, by The Merchants National Bank and Trust Company of Meadville, Meadville, Pennsylvania.

Governor Robertson suggested a revision of the conclusion and, there being agreement with that suggestion, the report was approved

unanimously for transmittal in a form in which the conclusion read as follows:

> The proposed purchase of assets and assumption of liabilities of Farmers and Merchants Bank of Linesville, Linesville, Pennsylvania, by The Merchants National Bank and Trust Company of Meadville, Meadville, Pennsylvania, would eliminate the rather insignificant competition between the two banks, but would enhance and improve competition for banks in Conneaut Lake and Conneautville.

Application of Fifth Third Union Trust Company. Pursuant to the majority decision at the meeting on November 22, 1961, to approve the application of Fifth Third Union Trust Company, Cincinnati, Ohio, for permission to merge with The Norwood-Hyde Park Bank and Trust Company, Norwood, Ohio, there had been distributed drafts of an order and statement reflecting that decision, along with a draft of dissenting statement of Governors Robertson and Shepardson. Certain suggestions by Governor Mills for revision of the majority statement had been distributed to the other members of the Board prior to this meeting.

Governor Mills said that the statement, as drafted, did not in his judgment catch the spirit of the reasoning in support of the majority decision. The changes that he had suggested reflected an effort to accomplish that purpose.

Governor Mitchell indicated that he shared the view of Governor Mills, but felt that a more extensive revision of the statement would be desirable. He had not yet had an opportunity, however, to study the statement sufficiently to make specific suggestions.

In the light of Governor Mitchell's comments, it was agreed to defer consideration of the matter pending the availability of a revised draft of majority statement.

Application of Wells Fargo Bank American Trust Company. On November 8, 1961, there was an oral presentation to the Board concerning the application of Wells Fargo Bank American Trust Company, San Francisco, California, for permission to acquire by merger The Farmers and Merchants National Bank of Santa Cruz, Santa Cruz, California. A memorandum from the Division of Examinations concerning the oral presentation was distributed under date of November 17, 1961.

In response to a question from the Chairman, Mr. Solomon said the Division of Examinations had nothing to add at this point to the information that had been placed at the Board's disposal concerning the application.

Governor Mitchell then opened a general discussion of the case by saying that in considering this and other applications, including those also listed on today's agenda, a pattern seemed to him to be developing that involved two issues. First, there was the question of the right of the shareholders of an existing bank to sell out to another institution. Second, there was the question whether the transaction would be in the public interest. In this case, the owners of the local bank could sell to Wells Fargo at a very good figure. Should Wells Fargo come into the community through a branch operation,

the value of the stock of Farmers and Merchants might decrease and the owners would therefore be deprived of value. He would feel that in such circumstances a proposed sale should be approved if the Board was quite sure that the transaction would be in the public interest. However, it seemed to him that Farmers and Merchants probably had secured a niche in Santa Cruz from which it could not be dislodged easily by Wells Fargo. In the specialized field of residential lending, the bank had been competing successfully with other banks and with aggressive savings and loan associations. Apparently the bank had been able to increase its deposits and earn money. He found it rather difficult to appraise what would happen if the application were denied and Wells Fargo nevertheless came into the community through a de novo branch. In any event, however, no one institution in any given community has to offer a full range of banking services. Failure to offer a full range of services does not mean that a bank should not be encouraged to continue in existence. The tenor of his thinking, therefore, was that even though he did not like to put the value of the shares of the local bank in jeopardy by saying that the bank could not sell out at a good figure, perhaps the public interest required denial. On the other hand, he did not have a firm opinion.

Governor Robertson noted that denial of any application meant that the bank proposing to sell out could not do so. As he saw it, the Board's job was to carry out the intent of the Congress, which called

for the maintenance of a sound banking system and the preservation of competition. In this case, all of the competitive services that could be provided by the institution resulting from the merger could also be provided through a de novo branch of Wells Fargo, although the operation would be less profitable for Wells Fargo, at least for the first few years. If the merger were approved, that would eliminate one competitor, a small bank that was well managed and had a sound capital position. In his opinion this elimination would be an unnecessary step.

Governor Mitchell noted that if the entry of Wells Fargo by way of a branch would result ultimately in the elimination of Farmers and Merchants, then it would seem better to approve the proposed merger, following which Governor Robertson brought out that Farmers and Merchants apparently had been able to withstand the competition of an existing branch of the State's largest bank. It was further pointed out that the establishment of a de novo branch by Wells Fargo would add to the number of competitive units in the community, while the merger transaction would substitute the branch services of a large bank for the services of a small independent bank. Involved in this discussion was an assumption that Wells Fargo would go ahead with its pending branch application if the merger should be denied.

At this point Chairman Martin called upon Mr. Solomon for comments concerning the reasoning that had led the Division of

Examinations to continue its favorable recommendation, and Mr. Solomon referred to statements made at the oral presentation to the effect that Farmers and Merchants had missed the boat, so to speak, in competing with the other local independent bank (County Bank of Santa Cruz), which had branched out and was claimed to be serving the community better. Farmers and Merchants maintained that it was not in a position to meet the needs of its customers fully, because of its low lending limit in an area that was becoming more industrialized. The bank therefore felt that it did not have a bright future; it apparently did not have the personnel to develop a commercial lending business. The bank foresaw that if it did not accept this offer it would, over a period of time, become less and less of a factor in the local situation and perhaps would have to sell out at some point.

These things, Mr. Solomon pointed out, involved a matter of opinion. He did not suppose that the bank would have to sell out or liquidate overnight, but such a development conceivably might come to pass over a period of time. As to Wells Fargo, obviously there would be a saving of money in obtaining a going concern, and for that reason it was willing to pay a premium. Thus, it might be worth while for Wells Fargo to enter into the merger and at the same time worth while to Farmers and Merchants to sell. A good deal would depend on one's appraisal of the future of the local bank in this rapidly expanding community, characterized by growing industrialization.

In reply to a question by Governor Balderston, Mr. Solomon expressed doubt whether this same line of argument could be applied to all of the remaining independent banks in California. For example, it apparently would not apply in the case of County Bank of Santa Cruz, which had been more alert to meet the needs of the community and seemingly was able to do a good job. No one seemed to be greatly concerned about the ability of County Bank to compete effectively in providing local banking services. On the other hand, it had been alleged that Farmers and Merchants was not of the same caliber.

There followed comments with regard to whether the line of reasoning suggested by the Division of Examinations with respect to the current application would be applicable also if County Bank desired to accept an offer to sell out. Comments also were made with respect to the relative percentage growth of deposits of the two local institutions in recent years.

Governor Mitchell suggested that the growth record of Farmers and Merchants would not indicate lack of good management, following which Chairman Martin commented that it was the bank's management that wanted to enter into the proposed merger. The basic question, he added, involved more than the property rights of existing ownership. It involved a judgment of what was in the best interest of the community concerned. He did not know to what extent people could be forced to continue a pattern that they did not want to continue and still be

expected to function as successful and useful bankers. In this case, he had been inclined toward denial until the oral presentation, at which time it appeared to him that the owners of the local bank obviously wanted to enter into the merger. The validity of an assumption that the impact of the merger on independent banking would be adverse seemed to him at least doubtful. There was another independent bank in the area that would continue to operate and might actually be stronger if this merger took place. As far as Wells Fargo was concerned, he doubted whether this would make too much difference to them. It would be convenient to acquire the local bank, but not necessarily a matter of the greatest importance. However, to people working in the local bank this might be quite an important matter in terms of their future careers. Knowing how the management felt, a person working for the bank might conclude that it was better for him to get out of the banking business and go into some other industry.

There followed expressions by Messrs. Solomon and Leavitt to the effect that they would not be inclined to give too much weight to the fact that Wells Fargo had an application pending for a branch in Santa Cruz. They noted that in a branch banking State like California many branch applications are filed, that Santa Cruz was, generally speaking, within the geographical area of current operations of Wells Fargo, and that even if Wells Fargo did not have an application pending, it might file one at any time. On the other hand, there was no indication that Wells Fargo would not go into Santa Cruz if the

merger application was denied. Moreover, if it did not, it seemed probable that some other large bank would go into the community by way of a new branch; in fact, one such application was now pending.

Governor King said that if the application were for permission to acquire County Bank, he might regard the matter quite differently. If the Board believed that it was in the public interest to deny any particular group the right to get out of business at what the group considered the proper time, he felt that the Board should have some good basis for denial. In the case of Farmers and Merchants, apparently the bank did not believe it was in its best interest to stay in business, and he would be hesitant to deny the bank the right to sell out. On the other hand, in the case of the larger independent bank he might come to a different conclusion.

In a further comment, Governor King said he thought a pattern had been established that would see many small banks wanting to get out of business. Once such a force had been set in motion, he felt it was unreasonable, in the absence of compelling circumstances, to say that people had to stay in business. This would be an unreasonable burden to place on institutions or groups of people.

Governor Robertson said he hoped there could be maintained in this country the type of banking system that would afford room for a growing number of men to go to the top of their institutions and provide leadership for the industry. He would not care to see a situation

develop where only eight or ten individuals would be able to go to the top and all others would have to work for someone else. He might be behind the times, but he thought it was unfortunate that in this country so many people already were working for others. This was the general line of reasoning that motivated him in looking at many of the merger cases that came before the Board.

Chairman Martin suggested that a key question was whether predatory operations were involved in any given case. If a merger or the establishment of a holding company involved coercion, this was wrong and should be stopped. In his opinion, however, a policy whereby a bank supervisory agency would try to force people to stay in business against their will, perhaps in a dying business, had real limitations. The coercion could be on either side. Generally speaking, it would be wiser for younger men to go into other lines of business than to strive to get to the top of dying institutions.

Question was raised whether Farmers and Merchants could be referred to as a dying institution, and the Chairman commented that each case must be judged on its merits. In this particular case, judgments could well differ. As for himself, he had been impressed by the statements of the people who spoke at the oral presentation. They were the people who were close to the scene, and in his judgment those representing Farmers and Merchants were sincere in their belief that a sale of the bank was the best course available to them.

Governor Mitchell noted that in a case where a large premium was offered, those receiving the offer might decide that, although their bank had good prospects, they were outweighed by the terms of the offer. Chairman Martin commented that it was a matter of judgment whether the price offered was so great as to involve a predatory operation, and Governor Mitchell said that on the basis of the record he would not apply the term in this instance. He thought the motives of Wells Fargo were business motives.

Governor King recalled that the shareholders of Farmers and Merchants reportedly had authorized the directors of the bank to solicit bids for merger. If this application should be denied, it would seem logical that the bank might seek approval for a merger with the next-highest bidder. When a group wants to find some way to get out of business, he suggested, some way will usually be found. He shared the general philosophy expressed by Governor Robertson and had so expressed himself on various occasions, but he believed that certain basic forces were in motion and that it would be futile to try to hold back the tides of the ocean.

Governor Robertson discussed various ways in which the predatory factor could operate in the banking and other fields, sometimes rather subtly. He would not want to say that a predatory operation was involved in this case. Nevertheless, Farmers and Merchants had opened a branch office and had received the approval of the Comptroller of the

Currency for the issuance of additional common shares before Wells Fargo applied for a branch in the community. Accordingly, that action by Wells Fargo may have been the factor that caused the ownership of Farmers and Merchants to decide to sell out. One must look at all of the factors to try to decide whether or not some form of coercion was involved.

Chairman Martin then stated that the Board had been over this case thoroughly and apparently should now dispose of it. Accordingly, he turned to the members of the Board, beginning with Governor Mills.

Governor Mills said he agreed with the position of the Division of Examinations and would favor approval of the application. He did not feel that the effects of the merger would be detrimental to competition. County Bank was an alert, well-managed, aggressive institution, fully able to take care of itself in local competition with offices of large branch banking institutions. In fact, he was inclined to think there might be a tendency to exaggerate the importance of branch banking competition. The mere existence of a branch of a large out-of-town bank in a small community would not necessarily introduce a competitive element detrimental to the existence of such small independent banks as might be located in the community. That would certainly seem true in this case, where there would be a remaining local bank that could continue to exist if it wished to do so. He felt that the Board should be cautious about interdicting the expressed wishes of the two parties to a transaction when there was no clear evidence that

the proposal would be contrary to the public interest. In this case, a branch of a large, well-managed bank would be substituted for a small independent bank that was holding its own but was not, in its own words, able to compete to the extent it wished in its own community because it had failed to rise to the occasion. He also felt that the Board should be careful about casting aspersions on the motives of any banks desiring to engage in a merger, particularly the motives of the surviving bank. In this case, he thought there were good reasons for Wells Fargo to want to extend its facilities into this area, which had good growth prospects. Also, Wells Fargo would afford strong competition for Bank of America and for any other outside bank that might subsequently be permitted to establish itself in the community.

Governor Robertson said he would disapprove the application on the ground that the transaction would represent just one more expansionary step by a bank that had heretofore been broadly engaged in mergers, and an unnecessary step toward the elimination of independent banks in the State of California. The transaction would eliminate the competition of a bank that was sound in every way, with adequate capital, good management, and good earnings. The merger was unnecessary because any additional services that the larger bank could introduce into the community could be provided by consummation of its effort to establish a branch in the community.

Governor Shepardson noted that he had been unable to attend the oral presentation. On the basis of the record of the case, however, this was a community that was becoming industrialized quite rapidly. A bank that had done well in the previous environment might not do well in the changed environment. This case involved a local bank that had done fairly well in the past, but apparently felt that it was not in a position to compete in the changing economic environment of its area. The management foresaw the bank eventually being squeezed out of the picture. These circumstances, along with the points advanced by Governor Mills, led him to support the staff recommendation for approval.

Governor King said he did not believe that anything unfavorable to approval had been found in the banking factors required by statute to be considered. If that was so, one must look at the competitive factor, and in his opinion there would not be an unfavorable effect on competition. While one might have some doubts, he did not believe a clear-cut statement could be made that there would be an unfavorable effect, or any tendency toward monopoly. If there was only one independent bank in the community and Wells Fargo was trying to acquire it, he thought one could come closer to finding an unfavorable effect, although he would still not be sure in those circumstances. In the actual situation, he did not see how an adverse conclusion could be reached, absent, as he saw it, any unfavorable effect on competition or tendency toward monopoly.

Governor Mitchell said he would deny the application on the grounds of reduction of actual and potential competition in the area concerned. If Wells Fargo wanted to come into the community, it could establish a de novo branch. Then there would be more competition by virtue of the existence of two local independent banks in addition to branches of out-of-town banks. He did not think that the change in the complexion of the community should hurt Farmers and Merchants too much; in fact, he thought it might help the bank. If the bank could compete with savings and loan associations as effectively as it had, he felt it might do better in the future rather than worse. In any event, he would like to think there could be a few places in California where independent banking could exist alongside branch banking. This appeared to him to be one such place.

Governor Balderston, who had been out of the country at the time of the oral presentation, said his thinking was similar to that expressed by Governor Mitchell. There were relatively few independent banks left in California. If they were eliminated one by one, the State would be committed entirely to large-scale banking by State-wide institutions. He found this case troublesome, but on balance he would favor denial.

Chairman Martin stated that he considered this a close case. He had considerable sympathy for the arguments of those favoring denial, but he had more sympathy for that line of argument in looking at some of the other applications that had come before the Board. He could not

persuade himself that the Board would be justified in denying this application on the basis of perpetuating independent banking.

Accordingly, it was voted to approve the application, Governors Balderston, Robertson, and Mitchell dissenting, and it was understood that an order and statements reflecting the action taken by the Board would be prepared for the Board's consideration.

Mr. Achor then withdrew from the meeting.

Oral presentations in holding company and merger cases. Chairman Martin referred to the following three applications that had been included on the agenda for discussion at today's meeting of the Board: application of Whitney Holding Corporation, New Orleans, Louisiana, to become a bank holding company by acquiring the shares of Crescent City National Bank, New Orleans, and the Whitney National Bank in Jefferson Parish; application of Chemical Bank New York Trust Company, New York City, for permission to merge with the Long Island Trust Company, Garden City, New York; and application of The Chase Manhattan Bank, New York City, for permission to merge with the Hempstead Bank, Hempstead, New York.

Chairman Martin said it was difficult for him to see why hearings or oral presentations should not be arranged in these cases when oral presentations had been held in cases such as the application of Wells Fargo Bank American Trust Company to merge with the Farmers and Merchants Bank of Santa Cruz. Similarly, he questioned whether the Board should put itself in a position where it had processed the application of

Morgan New York State Corporation in a manner different from other applications simply because it was a larger and more important case. Admittedly, the holding of numerous oral presentations would place an additional burden on the time of the members of the Board. However, in the Whitney application, for example, there were objecting parties involved. In view of this circumstance, the holding of an oral presentation in the Whitney case might involve problems for the Board, but the application was one falling within the purview of the Board's statutory responsibility. The Chairman concluded by saying that the purpose of his comments was to call attention to the problem from the standpoint of the Board's over-all procedures.

Governor Mills recalled that originally he had felt that there should be a hearing in the Whitney case. After reviewing the available data, however, he now felt that the record was comprehensive enough to warrant saving the time that would be involved in a hearing. Certain objections had been made, but in effect they related to the management of the Whitney National Bank, a matter that was extraneous to the application before the Board and fell within the responsibility of the Comptroller of the Currency. In his opinion the Board was in a position to consider the application before it and decide the matter on its merits.

Chairman Martin then referred further to the broader question of general procedure and asked whether, in a case where there was a

difference of opinion within the Board, the Board should reach a decision without affording the applicant the right of hearing. He added that he would find it difficult to explain to the public why the Board felt that an oral presentation was warranted in the Morgan case and was not warranted in the Whitney case.

Governor Mitchell said that he saw a basis for distinction between the two cases. Further, he did not think that the holding of an oral presentation would always resolve the basic questions in a given case. For example, in the Whitney case the integrity of management was, as he saw it, a basic point at issue, but he doubted whether that could be proved one way or the other in an oral presentation. Comments by dissident parties would not resolve the question. From the available information, he assumed it was felt by the Reserve Bank and the Board's staff that the Whitney management was satisfactory.

Governor King felt, like Governor Mitchell, that a distinction could be made between the two cases mentioned. He recalled that when the Whitney matter was originally discussed, he had spoken on the side of not holding a hearing, and he continued of that view. The Morgan case involved a combination of a large amount of funds not now combined, whereas in the Whitney case the changes in banking structure that would be involved seemed to him more in the nature of changes of form than substance.

Governor Mitchell supplemented his previous comments by saying that the Whitney application appeared to amount essentially to the opening of a branch. Whitney had alternative procedures that it might pursue, including the organization of a bank in Jefferson Parish that would be affiliated with the Whitney National Bank, but it seemed to be trying to proceed in a straightforward way. Again, he felt that the question tended to turn to a considerable extent on the integrity of the Whitney management.

Chairman Martin said that his concern was with the integrity of the Board, which had within its own power the right to determine in a given case whether there would or would not be a formal hearing or an oral presentation. Personally, he would like to vote on the Whitney case and succeeding cases against the background of a hearing or oral presentation. Admittedly, the number of oral presentations that would be involved presented a practical problem. If the Board was going to save its good name, however, it must appear to the public as a body that had given adequate time and attention to its decisions. The Comptroller of the Currency, he pointed out, had recently held a public hearing on a proposed merger in the New York City area that was similar in characteristics to two of the applications listed on the agenda for today's Board meeting.

Governor Mitchell then said that he would not oppose oral presentations in those two cases, but that it did not seem to him that

the Whitney case required a hearing, following which Governor Shepardson expressed doubt that a line could be drawn. He noted that feelings had been aroused in Louisiana with respect to the Whitney matter and asked how the Board could justify not affording an opportunity for the opposing points of view to be heard. Governor Mitchell replied that in his opinion the holding of a hearing might simply embroil the Federal Reserve in a local contest of strength between opposing parties. He also noted that there had been no request for a hearing.

Governor Robertson indicated that he could see no basis for not holding a hearing or oral presentation on the two New York cases. There was a similarity between the two cases, and between them and the application on which the Comptroller had recently held a public hearing. The Whitney case, he thought, was entirely different. The only reason he would come to the conclusion that a hearing should be held was that on the basis of the record now available to the Board he would be inclined to deny the application. If a majority of the Board was similarly inclined, that would give support to the holding of a hearing or oral presentation in order to provide the best possible record and to assure full consideration of all relevant facts.

There ensued discussion of the procedure that the Board had followed for several months earlier this year of inviting oral presentation in cases where preliminary discussion revealed a disinclination to approve or a desire for additional information. Governor Robertson suggested during this discussion that if in any given case there was a

unanimous inclination toward approval, the holding of an oral presentation might seem unnecessary because no one's rights would be prejudiced. Chairman Martin, however, suggested that there might be opposition in the geographical area concerned that would not be recognized in the absence of a hearing or oral presentation. He questioned the appropriateness of a procedure whereby cases would be decided without a public hearing when there might be people who would have something to say in opposition.

In this connection Mr. Hackley pointed out that under the Board's present Rules of Procedure, as published, it was entirely within the discretion of the Board whether it would wish to afford an opportunity for oral presentation before the Board, as in the Morgan case, or to order a formal hearing before a hearing examiner. In a number of holding company cases the latter procedure had been followed. On various occasions, he recalled, the Board had discussed the advantages and disadvantages of hearings before a hearing examiner and of oral presentations before the Board. The Legal Division had recommended an oral presentation in the Morgan case on the grounds that this would expedite consideration of the application, that the information already before the Board appeared to provide an adequate statement of facts and a formal hearing probably would not produce any significant additional facts, that a formal hearing therefore was not necessary, but that, despite the inconvenience, an opportunity for oral presentation of views would be

desirable. Such a procedure, Mr. Hackley commented, might be desirable even if in some cases it developed that the oral argument did not serve a useful purpose. Further, the holding of an oral presentation might have some influence on the thinking of the Board; that is, on the judgment of the Board based on the facts before it. Thus, there were considerations both for and against oral presentations in the cases now before the Board. The fact that such a presentation had been arranged in the Morgan case and the fact that a public hearing had been held by the Comptroller in a recent merger case suggested that it might be rather difficult to explain the situation if the Board did not afford a similar opportunity in the two New York City cases. In the Whitney case the situation seemed somewhat different, and he was not sure whether an oral presentation would or would not be desirable.

Mr. Hackley brought out in further comments that the procedure adopted by the Board on July 27, 1961, had now been definitely abandoned and it was within the discretion of the Board, at any stage of the consideration of an application, to order a formal hearing or oral presentation. In each case the presentation would be public unless the Board ordered otherwise, and notice would be published in the Federal Register. He did not feel that the Board should be concerned about establishing a precedent for an oral presentation in every case, however. The cases before the Board were ones on which interested members of the public might want to express views. There could still be cases where no

objection had been raised by any interested person, and in such event no need might be seen for an oral presentation. Again there might be cases where, even though the Board was disposed to approve, it would seem desirable to have an oral presentation in order to afford any objectors a chance to express their views. An oral presentation might be just as desirable in some cases where the Board was disposed to approve as in cases where it was disposed to deny.

Governor Robertson expressed agreement with this point of view, following which Governor Balderston said that in his opinion the Board should arrange oral presentations in the two New York cases. In the Whitney case, he was not so clear. He wondered whether a hearing examiner might be able to prepare a better record by holding a hearing in New Orleans.

Mr. Hackley commented that the ideal procedure might be to hold a formal hearing in every case. As a practical matter, however, he would not recommend such a procedure. In the Whitney case the staff felt that an adequate statement of facts was available and that nothing would be gained from that standpoint by holding a formal hearing. Also, as President Bryan of the Atlanta Reserve Bank had suggested, there might be some public relations problem in regard to holding a formal hearing in New Orleans.

In further discussion, Governor Robertson noted that under its Rules of Procedure the Board would have the option of arranging an oral

presentation before some individual designated by the Board. In the Whitney case it would be possible to designate one person to hear an oral presentation in New Orleans. However, for reasons such as Mr. Hackley had mentioned, that might be exactly the wrong thing to do, and it would not meet the point that there might be questions that members of the Board would want to raise at an oral presentation.

Chairman Martin then commented that the merger case just considered by the Board had been decided by a 4-3 vote. He was glad that there had been an oral presentation, for he felt that the Board was placed in a better public position. If an oral presentation had not been held and the Board's decision on the application had been adverse, the applicant would almost certainly submit a request for reconsideration and such request would be before the Board for determination.

Governor King expressed the view that in the Whitney case the Board would be in a worse position if the application were denied without a hearing having been held than if the application were approved in similar circumstances. If that was so, something would seem to depend on what the members of the Board were inclined to think about the case at this point. He would hesitate to see the matter go through a hearing unless the Board would be placed in a bad position by foregoing the hearing.

Mr. Molony commented at this point that much of the discussion had been in terms of whether a hearing or oral presentation was necessary and what it would add to the record. However, he could not think of circumstances in which such a procedure would diminish the basis for judgment. The question might be asked, therefore, whether there was any harm in a hearing or oral presentation. The only adverse factor that occurred to him was the extra time that would be involved.

Governor Mitchell suggested, in reply, that a hearing could stir people up in the circumstances of the Whitney case. It would give dissident parties a forum.

Governor Balderston raised certain questions regarding the position of the State banking authorities and provisions of State law in relation to the Whitney case. Comments made in reply were to the effect that although nothing had been heard from the State authorities in this instance, this was not unusual because the provisions of the Bank Holding Company Act do not require the obtaining of such views in a case where national banks are involved. In such circumstances, it had not been customary for the State authorities to express themselves. As to Louisiana State law, it was noted that the provisions thereof would not prevent the proposed transaction. It was also noted that the Board was on record as taking the position that an acquisition by a holding company in a non-branch banking State was not an evasion of State law. Also, in this case the Department of Justice had informally expressed itself as having no objection.

Governor Balderston then alluded to the point made at the outset of the discussion that the dispute among shareholders of Whitney National Bank was irrelevant to the application before the Board. He said that he could envisage the possibility of becoming embroiled in matters that were irrelevant.

Governor Mitchell said he would agree that the dispute referred to by Governor Balderston was irrelevant, except as it bore upon the integrity of the Whitney management.

Chairman Martin then suggested that perhaps the Board should go ahead and act on the Whitney application. He had no very strong view. On the other hand, he was concerned about explaining to the public how the Board proceeded in such matters.

Mr. Solomon noted that in a recent case in the Cincinnati, Ohio, area the Board had decided favorably without a hearing having been held. In that case no objections had been filed, and it was difficult for him to see how any purpose would have been served by holding a hearing or oral presentation notwithstanding the fact that there were dissents within the Board on the decision. No one on the outside would feel unfairly treated as the result of the decision. However, if the decision had been to deny, some persons would have been made unhappy. Had the prospective decision been to deny, the Board might not have wanted to reach a final decision without affording an opportunity for oral expression of views.

Chairman Martin commented that this line of reasoning would suggest a return to the procedure of registering preliminary views that had been discarded by the Board. He then inquired whether the members of the Board were prepared to vote on the Whitney application, and Governor Robertson stated that he was prepared to vote, if necessary, but that he felt there should be an opportunity for oral presentation. The Chairman said he also felt that there should be an oral presentation, although he did not want to be too stubborn on the matter. Governor Balderston said that he would favor holding an oral presentation, and Governor Shepardson expressed a similar view.

Governor King indicated that he did not think a hearing was necessary, but that he respected the right of the members of the Board to inquire into an application as fully as they desired before reaching a decision.

Governor Mills raised a question with respect to the respective areas of responsibility of the Board and of the Comptroller of the Currency in the Whitney matter, noting that the holding company proposed to acquire the stock of a national bank yet to be chartered in Jefferson Parish. In reply, it was stated that the charter application had been tentatively approved by the previous Comptroller of the Currency. As to the application of Whitney Holding Corporation, the Board was being requested to approve action to become a bank holding company, which would involve acquisition of the stock of two banks, one being the institution

for which a charter had been tentatively approved by the previous Comptroller.

In additional discussion of the question of holding hearings or oral presentations, Mr. Hexter pointed out that the Congressional deliberations in connection with the passage of the Bank Holding Company Act contemplated that the Board would be required to hold formal hearings in cases where either the State bank supervisor or the Comptroller of the Currency, as the case might be, registered an objection to the proposed transaction. The report on the bill indicated, however, that if no such objection was registered, the Board could proceed in a more informal manner. The argument against holding a formal hearing or oral presentation was the delay involved. Unless the Board actually believed that it was going to be able to make its decision more wisely if a hearing or oral presentation was ordered, it seemed to him there would be little justification for the delay involved in such a procedure. The fact that the Comptroller of the Currency had announced his intention to hold public hearings on merger cases seemed to him to provide no strong reason why the Board should follow suit unless the Board believed it could profit from following a similar procedure.

Reverting to the Whitney case, Governor Mills stated that he would not vote against the holding of an oral presentation. While he did not think it was necessary, if there was a disposition on the part of the other members of the Board to want to hold an oral presentation, he would not vote against it.

Accordingly, it was agreed to arrange an oral presentation before the Board on the Whitney application, Governors King and Mitchell dissenting. Also, it was agreed unanimously to arrange oral presentations in connection with the applications of Chemical Bank New York Trust Company and The Chase Manhattan Bank.

The discussion then turned to the scheduling of the presentations. After consideration of the time required for completion of the procedures incidental to arranging such a presentation, Governor Robertson suggested that the staff be authorized to consult with representatives of the applicants with a view to arranging the oral presentations on mutually convenient dates as soon as feasible after the turn of the year. Agreement having been expressed with this suggestion, the staff was so authorized.

Amendment of Regulations Q and D (Items 2 and 3). At its meeting on December 4, 1961, the Board approved certain amendments to Regulation Q, Payment of Interest on Deposits, relating to the definition of a savings deposit, along with a conforming amendment to Regulation D, Reserves of Member Banks, subject to adoption by the Federal Deposit Insurance Corporation of similar amendments to its pertinent regulation.

According to the amendment of Regulation Q tentatively approved on December 4, section 217.1(e)(2) would permit the payment to a third person, pursuant to instructions of the depositor, of interest that had been credited to a savings deposit. In a memorandum from the Legal Division

dated December 11, 1961, which had been distributed, the Board was advised that the Federal Deposit Insurance Corporation had adopted slightly different language, so as to permit the payment of interest to a third person pursuant to written instruction or assignment by the depositor, accepted by the bank, and placed on file therein. There appearing to be no significant reason for objection to the change, it was recommended by the Legal Division that the Board use the same language in Regulation Q.

No objection was indicated. Accordingly, the Board approved unanimously, subject to this change, the proposed amendment of Regulation Q along with a conforming amendment to Regulation D. It was understood that arrangements would be made for simultaneous publication in the Federal Register by December 16 of these amendments and the amendments adopted by the Federal Deposit Insurance Corporation, and that the amendments to Regulations Q and D would become effective January 15, 1962. Copies of the amendments to Regulations Q and D, in the form in which they were subsequently published in the Federal Register, are attached as Items 2 and 3, respectively.

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:

Transfer

Stephen P. Taylor, from the position of Economist to the position of Chief, Flow of Funds and Savings Section, Division of Research and Statistics, with no change in his basic annual salary at the rate of $12,210, effective December 18, 1961.

Salary increases, effective December 24, 1961

Philip T. Allen, Economist, Division of Research and Statistics, from $11,155 to $11,415 per annum.

Paul W. Kuznets, Economist, Division of Research and Statistics, from $6,765 to $6,930 per annum.

Frederick R. Dahl, Economist, Division of International Finance, from $10,895 to $11,155 per annum.

Frank J. Callahan, Statistical Assistant, Division of Bank Operations, from $5,665 to $5,830 per annum.

Joseph E. Dougherty, Assistant Federal Reserve Examiner, Division of Examinations, from $4,995 to $5,160 per annum.

Robert H. Craft, Digital Computer Systems Operator (Trainee), Division of Administrative Services, from $4,840 to $5,005 per annum.

Acceptance of resignation

Stanley J. Sigel, Chief, Flow of Funds and Savings Section, Division of Research and Statistics, effective at the close of business December 16, 1961. (In accordance with the understanding indicated at the meeting of the Board on September 11, 1961.)

Secretary

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

Item No. 1
12/12/61

December 12, 1961

Mr. Walter B. Wriston, Executive Vice President,
The First National City Bank of New York,
399 Park Avenue,
New York 22, New York.

Dear Mr. Wriston:

The Board of Governors has approved the Articles of Association and the Organization Certificate, dated November 15, 1961, of First National City Overseas Investment Corporation, and there is enclosed a preliminary permit authorizing that Corporation to exercise such of the powers conferred by Section 25(a) of the Federal Reserve Act as are incidental and preliminary to its organization. As you are aware, the Corporation may not exercise any of the other powers conferred by Section 25(a) until it has received a final permit from the Board authorizing it generally to commence business. The steps which must be taken prior to issuance of a final permit are enumerated in Section 211.3(c) of the Board's Regulation K.

Article FOURTH of the Organization Certificate and Article SEVENTH of the Articles of Association provide that the authorized capital stock of the Corporation shall consist of 100,000 shares of $100 par value stock, of which, prior to the commencement of business, all shall be subscribed and not less than $2,500,000 of the $10,000,000 authorized shall be issued and fully paid in. It is understood that all outstanding shares will be fully paid. The Board of Governors hereby consents that the remainder of the capital stock of the Corporation may be paid in upon call from the Board of Directors of the Corporation, provided that the Board of Governors shall have approved each such increase in paid-in capital not more than ninety days prior to the date on which the increase is paid in.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Enclosure.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

December 12, 1961

Preliminary Permit

IT IS HEREBY CERTIFIED that the Board of Governors of the Federal Reserve System, pursuant to authority vested in it by Section 25(a) of the Federal Reserve Act, as amended, has this day approved the Articles of Association and Organization Certificate, dated November 15, 1961, of FIRST NATIONAL CITY OVERSEAS INVESTMENT CORPORATION duly filed with said Board of Governors, and that FIRST NATIONAL CITY OVERSEAS INVESTMENT CORPORATION is authorized to exercise such of the powers conferred upon it by said Section 25(a) as are incidental and preliminary to its organization pending the issuance by the Board of Governors of the Federal Reserve System of a final permit generally to commence business in accordance with the provisions of said Section 25(a) and the rules and regulations of the Board of Governors of the Federal Reserve System issued pursuant thereto.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By (Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary

(SEAL)

TITLE 12 - BANKS AND BANKING Item No. 2
12/12/61

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. Q]

PART 217 - PAYMENT OF INTEREST ON DEPOSITS

Savings Deposits

1. Effective January 15, 1962, paragraph (e) of § 217.1 is amended to read as follows:

§ 217.1 Definitions.

* * * * *

(e) Savings deposits. (1) The term "savings deposit" means a deposit

(i) which consists of funds deposited to the credit of one or more individuals, or of a corporation, association, or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not operated for profit;[4/] or in which the entire beneficial interest is held by one or more individuals or by such a corporation, association, or other organization; and

(ii) with respect to which the depositor is required, or may at any time be required, by the bank to give notice in writing of an intended withdrawal not less than 30 days before such withdrawal is made.

4/ Deposits in joint accounts of two or more individuals may be classified as savings deposits if they meet the other requirements of the above definition but deposits of a partnership operated for profit may not be so classified. Deposits to the credit of an individual of funds in which any beneficial interest is held by a corporation, partnership, association, or other organization operated for profit or not operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes may not be classified as savings deposits.

(2) Subject to the provisions of subparagraph (3) of this paragraph, a member bank may permit withdrawals to be made from a savings deposit only through payment[5/] to the depositor himself (but not to any other person whether or not acting for the depositor), except

(i) where the deposit is represented by a pass book, to any person presenting the pass book;[5/]

(ii) to an executor, administrator, trustee, or other fiduciary holding the savings deposit as part of a fiduciary estate, or to a person, other than the bank of deposit, holding a general power of attorney granted by the depositor;

(iii) to any person, including the depository bank, that has extended credit to the depositor on the security of the savings deposit, where such payment is made in order to enable the creditor to realize upon such security;

(iv) pursuant to the order of a court of competent jurisdiction;

(v) upon the death of the depositor, to any person authorized by law to receive the deposit; or

(vi) with respect to interest paid to a third person pursuant to written instruction or assignment by the depositor accepted by the bank, and placed on file therein.

5/ Payment from a savings deposit or presentation of a pass book may be made over the counter, through the mails, or otherwise.

(3) Notwithstanding the provisions of subparagraph (2) of this paragraph, no withdrawal shall be permitted by a member bank to be made from a savings deposit after January 15, 1962, through payment to the bank itself or through transfer of credit to a demand or other deposit account of the same depositor (other than of interest on the savings deposit) if such payment or transfer is made pursuant to any advertised plan or any agreement, written or oral,

(i) which authorizes such payments or transfers of credit to be made as a normal practice in order to cover checks or drafts drawn by the depositor upon the bank; or

(ii) which provides that such payments or transfers of credit shall be made at daily, monthly, or other such periodic intervals, except where made to enable the bank, on the depositor's behalf and pursuant to his written instructions, to effect the payment of installments of principal, interest, or other charges (including taxes or insurance premiums) due on a real estate loan or mortgage.

(4) Where a savings deposit is evidenced by a pass book, every withdrawal made upon presentation of the pass book shall be entered in the pass book at the time of withdrawal, and every other withdrawal from such a deposit shall be entered in the pass book as soon as practicable after the withdrawal is made.

2a. The purpose of this amendment is (1) to prevent certain practices that facilitate the use of a savings deposit as a regular means for drawing checks on the depository bank, and (2) to add certain liberalizing provisions which would permit payment of a savings deposit

to anyone holding title to the deposit in a fiduciary capacity or pursuant to court order, or as security for credit extended to the depositor.

b. The amendment set forth herein was the subject of a notice of proposed rule making, published in the Federal Register (26 F.R. 8602), and was adopted by the Board after consideration of all relevant views and arguments received from interested persons.

(Sec. 11(i), 38 Stat. 262; 12 U.S.C. 248(i). Interpret or apply secs. 19, 24, 38 Stat. 270, 273, as amended, sec. 8, 48 Stat. 168, as amended; 12 U.S.C. 264(c)(7), 371, 371a, 371b, 461)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(Signed) Merritt Sherman
Merritt Sherman,
Secretary.

(SEAL)

TITLE 12 - BANKS AND BANKING

Item No. 3
12/12/61

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. D]

PART 204 - RESERVES OF MEMBER BANKS

Savings Deposits

1. Effective January 15, 1962, paragraph (e) of § 204.1 is amended to read as follows:

§ 204.1 Definitions.

* * * * *

(e) Savings deposits. The term "savings deposit" means a deposit

(1) which consists of funds deposited to the credit of one or more individuals, or of a corporation, association, or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not operated for profit;[4/] or in which the entire beneficial interest is held by one or more individuals or by such a corporation, association, or other organization; and

(2) with respect to which the depositor is required, or may at any time be required, by the bank to give notice in writing of an intended withdrawal not less than 30 days before such withdrawal is made.

4/ Deposits in joint accounts of two or more individuals may be classified as savings deposits if they meet the other requirements of the above definition but deposits of a partnership operated for profit may not be so classified. Deposits to the credit of an individual of funds in which any beneficial interest is held by a corporation, partnership, association, or other organization operated for profit or not operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes may not be classified as savings deposits.

2a. The purpose of this amendment is to conform the definition of "savings deposits" as contained in this Part to the definition of "savings deposits" in Part 217 as amended effective January 15, 1962.

b. The amendment set forth herein was the subject of a notice of proposed rule making, published in the Federal Register (26 F.R. 8602), and was adopted by the Board after consideration of all relevant views and arguments received from interested persons.

(Sec. 11, 38 Stat. 261, as amended; 12 U.S.C. 248. Interprets or applies sec. 19, 38 Stat. 270, as amended, sec. 19, 48 Stat. 54, as amended; 12 U.S.C. 461, 462, 462b, 464, 465; Public Law 86-114, July 28, 1959)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(Signed) Merritt Sherman
Merritt Sherman,
Secretary.

(SEAL)