Minutes for January 11, 1962

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

Gov. Mills

Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Gov. Mitchell

Minutes of the Board of Governors of the Federal Reserve System on Thursday, January 11, 1962. 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. Solomon, Director, Division of Examinations
Mr. Hooff, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Furth, Adviser, Division of International Finance
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Thompson, Assistant Director, Division of Examinations
Mr. Fuerth, Attorney
Mr. McClintock, Review Examiner, Division of Examinations

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:

	Item No.
Letter to The Bank of New Orleans and Trust Company, New Orleans, Louisiana, approving the establishment of a branch in the Medical Plaza Building.	1

	Item No.
Letters to the Comptroller of the Currency and the Trust Division, American Bankers Association, regarding whether funds held by banks as "custodian" under the Uniform Gifts to Minors Act may be invested in a common trust fund established and maintained under the provisions of section 17(a) of Regulation F.	2,3
Letter to Lakeside Corporation, Gary, Indiana, granting a determination exempting it from holding company affiliate requirements other than those contained in section 23A of the Federal Reserve Act.	4
Letter to Lenroc, Inc., Minneapolis, Minnesota, granting a determination exempting it from holding company affiliate requirements other than those contained in section 23A of the Federal Reserve Act.	5

Application to organize a national bank at San Antonio, Texas (Item No. 6). There had been circulated to the Board a memorandum from the Division of Examinations proposing an unfavorable recommendation to the Comptroller of the Currency regarding an application by Clifford L. Hagy and associates to organize a national bank at San Antonio, Texas. The Federal Reserve Bank of Dallas also had suggested an unfavorable recommendation. The proposed letter to the Comptroller would refer to poor earnings prospects and lack of need for the bank. It would also state that management was not of the type considered satisfactory for a new bank.

At the Board's request, Mr. Leavitt discussed the factors underlying the recommendations of the Reserve Bank and the Division

of Examinations. In response to a question, he agreed that the number of banking offices in San Antonio was low relative to population. He pointed out, however, that a substantial part of the population was in the low-income category. This was confirmed by Governor Shepardson, who added that several applications to organize new national banks in San Antonio had come to the Board's attention in recent years and that in his judgment the growth prospects of those proposed banks were not outstanding. He also pointed out that San Antonio was not as good a business town as several other Texas cities, that it was surrounded by essentially an agricultural area, and that its residents included a large number of retired military personnel. Further comments brought out that three new banks had been chartered in San Antonio in recent years and that they had not shown fast growth.

The discussion that followed indicated that a majority of the Board supported the proposed unfavorable recommendation.

Governor Robertson, although stating that he would not oppose the recommendation, nevertheless thought the case was far from one-sided. He felt it was quite possible that the bank would be able to obtain satisfactory earnings. As to management, although the proposed chairman of the board was referred to as a liberal lender, there might be need for a person of such tendencies in a new bank of this kind. It was in view of the comments about the income level of the population and the question of need for the new bank that he would reluctantly support the unfavorable recommendation.

Governor Mitchell expressed reluctance to support an unfavorable recommendation. This was principally because he felt that if competition was going to be relied upon to regulate the providing of banking services, supervisory agencies must be cautious about denying access to the banking business. The people who were putting up the money to start a new bank were the ones who were taking the risk, and he questioned whether it was appropriate to substitute supervisory judgment for that of the investors, even though at a distance it might not appear that a proposed new bank had good prospects. Although the staff had made a good presentation of the instant case, he would lean toward a favorable recommendation.

At the conclusion of the discussion, the letter to the Comptroller was approved, Governor Mitchell dissenting.

Mr. Thompson then withdrew from the meeting.

Application of Hackensack Trust Company. There had been distributed to the Board memoranda from the Division of Examinations and the Legal Division dated December 29, 1961, and January 8, 1962, respectively, regarding an application of The Hackensack Trust Company, Hackensack, New Jersey, for permission to merge into itself The Bank of Saddle Brook and Lodi, Saddle Brook, New Jersey, and to operate branches at the present locations of the two offices of the Saddle Brook bank. The Division of Examinations recommended favorably. It proposed, however, that if the transaction were approved, the letter transmitting the Board's order to Hackensack Trust Company refer to the need for

additional capital and the trust company's agreement with the State authorities to augment its capital funds.

In commenting on the application, Mr. Solomon brought out that the management of the Saddle Brook bank had been able to obtain business but had not been successful in operating the bank. There had been severe dissension within the ranks of management ever since the bank opened for business as a member bank in 1958. It appeared that there was much to be said for solving the management problem by whatever reasonable method was available. As far as competitive factors were concerned, Mr. Solomon said that this proposed merger did not seem to present much of a problem. Not even the Department of Justice had reported adversely. The case might almost be described as one where a problem bank situation was being solved by merger with another bank.

Mr. Solomon then turned to the question of the capital position of Hackensack Trust Company. The bank was not as well capitalized as it should be, and there had been a good deal of discussion of this matter with the bank by the Federal Reserve and by the State authorities. While the problem was important and continued attention to it was essential, the Division of Examinations and the Reserve Bank were inclined to believe that because of the high caliber of management and indications that careful attention would continue to be given by management to the bank's operations, the merger could be approved. Management was highly regarded, and the bank was well run. As to capital, management

seemed to think that the bank's growth would level off and that the bank would not need more new capital if its growth leveled off and earnings were retained.

Governor Mills said he believed that the comments by Mr. Solomon and the memorandum from the Division of Examinations presented the case clearly. He concurred in the favorable recommendation.

Governor Robertson also indicated that he concurred in the recommendation.

Governor Shepardson stated that he would favor approval of the merger. The only question in his mind was with regard to the capital position of Hackensack Trust Company. Repeated efforts to persuade the bank to increase its capital had been unsuccessful, and his question was whether the Federal Reserve was going as far as it could to obtain correction of the situation.

In reply, Mr. Leavitt noted that if the application before the Board should be approved, it was proposed to include in the letter to the applicant bank transmitting the Board's order a statement on the subject of the bank's capital position. Suggested language for the letter would be submitted to the Board for consideration along with drafts of an order and supporting statement.

Governor King indicated that he would favor approval of the merger. He referred to the fact that under the merger agreement the shareholders of Saddle Brook would receive stock of Hackensack Trust

having a book value less than their shares of Saddle Brook, which suggested to him that the Saddle Brook shareholders had decided that a merger of the institution would be to their best interest.

Governor Mitchell said he thought it was unfair to say that a bank in existence only about three years had a management problem that could not be solved. It would be surprising to him if a new institution like the Saddle Brook bank did not have a management problem. The question was whether a merger with Hackensack Trust offered the best solution. It concerned him that if it became widely believed that the Board would consent to the merger of any bank that had a management problem, such problems might be contrived. In this case, he saw no reason to approve the merger except to solve the alleged management problem. The Saddle Brook appeared to be a flourishing bank in a growing community.

Mr. Solomon commented that it was quite true that any new institution of this kind might have a management problem. However, the situation at the Saddle Brook bank was quite different from the typical management problem. The bank's history had been marked by continued bitter dissension within the board of directors, and there had been crisis after crisis. Some of the directors had carried their accusations to the State banking authorities, and the State at one point had considered the matter serious enough to order an immediate examination. While nothing more than personal conflict among the directors apparently was found, the situation had affected the bank and its further growth adversely. Thus,

the problem was quite different from the typical new-bank management problem.

After further comments in this regard, Governor Mitchell indicated that the description by Mr. Solomon of the management problem had changed somewhat his appraisal of the application. He went on to say, however, that he saw no reason for the merger except to correct the management dilemma; otherwise, both banks appeared to be doing well.

There followed additional discussion relating to the cost of banking services rendered by the respective institutions and the accessibility of alternative sources of banking facilities.

The application of Hackensack Trust Company was then approved unanimously, and it was understood that drafts of an order and statement would be prepared by the Legal Division for the Board's consideration.

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

Regulation K. At the meeting of the Board on December 29, 1961, the Board (a) approved the sending of a letter to foreign banking and financing corporations inviting comments on Regulation K prior to February 15, 1962; (b) approved the making of a study of this Regulation in the light of experience since it was revised effective January 15, 1957; and (c) requested the staff to bring back to the Board a suggestion as to the procedures that might be followed in undertaking such a study. A memorandum from the staff dated

January 8, 1962, which had been distributed, suggested formation of a committee composed of four members of the Board's staff, including one representative each from the Legal, Examinations, and International Finance Divisions, with the director of one of those divisions to serve as chairman of the committee. This was suggested as an arrangement that would permit the study to be expedited, but the committee would be free to consult with other members of the Board's staff or the staffs of the Federal Reserve Banks in connection with the study. Also, it would have, by mid-February, responses to the letters sent to foreign banking and financing corporations on December 29 inviting comments on the Regulation and its possible need for revision. The suggestion contemplated that if the Board felt it desirable to do so, the committee later could be enlarged to include representation from the Federal Reserve Banks.

Governor Balderston stated that one question raised at the meeting on December 29 was whether the committee should consist of representatives from the Board only, or whether it should include representation from the Federal Reserve Banks at the outset. It was his thought that progress in the study might be made most rapidly if a Board committee was appointed, with authority to obtain views or assistance from any part of the System. Obviously, the Federal Reserve Bank of New York would be an essential source of information in such a study because of the part it had played in supervising Edge Act corporations over the

years. However, it was Governor Balderston's view that if a representative were selected from that Bank there would also be some need for selecting a representative from at least one of the other four Reserve Banks having supervision of foreign banking or financing corporations (Boston, Philadelphia, Chicago, and San Francisco) and that on the whole the smaller Board committee would be preferable at this stage.

Governor Robertson stated that while he would not oppose the formation of a committee such as suggested by Governor Balderston, he believed that the New York Reserve Bank should be included in the study from the outset, provided that Bank could make available an individual who could devote his time continuously to this study and not have it as an intermittent part of his work. He agreed that the Legal, Examinations, and International Finance Divisions should all have representation on the committee, but he did not believe that a committee having as many as five or six members would be unwieldy, provided the members of the committee could serve continuously on this particular project.

Governor Mitchell inquired as to the scope of the proposed study, which was then described by Governor Robertson as one to review the entire operation of Regulation K since it was amended effective in January 1957, to inquire into the need for any changes that would be desirable from the standpoint of the purpose of this Regulation and those operating under it, and to present to the Board proposals for any changes that the committee might agree upon.

Governor Mills stated that, while there were advantages in having representation from the Federal Reserve Banks on the committee from the outset, there were also disadvantages, not only from the standpoint of expediting the study but also from the standpoint of reviewing the operation of a Regulation of the Board and coming back with objective suggestions. In his view, an arrangement under which the committee would be composed of Board representation, with freedom to call upon other members of the Board's staff or the staffs of the Federal Reserve Banks as consultants, had much to be said for it.

Governor Mitchell stated that in his view a study of this scope, which would involve policy suggestions and judgments, properly called for a committee of more than three persons and one which would be representative of the entire System.

Following further discussion, Chairman Martin suggested that Governor Mitchell, as the most recently appointed member of the Board and one who had not participated actively in discussions of Regulation K in the past, be asked to assume the task of supervising the proposed study, with the understanding that he would be free to arrange for a committee and for carrying forward the study in the light of the discussion at this meeting.

This suggestion was approved unanimously.

Procedure for selecting Open Market Committee members. Chairman Martin stated that President Irons of Dallas had informed him that the

directors of that Bank expected to act shortly in electing a representative on the Federal Open Market Committee from the Federal Reserve Banks of Atlanta, Dallas, and St. Louis. Under the rotation procedure that had been worked out for election of representatives from the Federal Reserve Banks, the President of the Federal Reserve Bank of St. Louis would ordinarily be expected to serve as a Committee member for the year beginning March 1, 1962, with the President of the Federal Reserve Bank of Atlanta as alternate. However, Mr. Irons had raised the question whether, in view of Mr. Johns' retirement as of March 1, 1962, and in the absence of knowledge as to who would be the next President of the St. Louis Bank, it might be desirable to vary from the customary rotation procedure in this instance.

In discussion, attention was called to the procedure followed in 1954 when Mr. Irons first became President of the Dallas Bank at a time when the President of that Bank would, under the usual rotation procedure, have been selected as a member. In that instance, such selection was not made on the grounds that Mr. Irons should not be called upon to serve in this capacity in addition to the other new duties at the Dallas Bank that he was about to undertake, and there was a break in the rotation procedure.

Chairman Martin inquired of Mr. Hackley whether there was any legal problem involved, to which Mr. Hackley responded that the law provides that the directors of the Federal Reserve Banks concerned shall elect the member and alternate member from among the Presidents and First

Vice Presidents of the Reserve Banks in the group. Other than that, no legal requirement was involved.

After some discussion, it was understood that Chairman Martin would inform Mr. Irons, in response to the latter's request for guidance, that the Board would see no objection to an interruption of the rotation procedure if the directors of the Banks concerned wished to follow that procedure.

The meeting then adjourned.

Secretary

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

Item No. 1
1/11/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 11, 1962

Board of Directors,
The Bank of New Orleans and Trust Company,
New Orleans, Louisiana.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Atlanta, the Board of Governors of the Federal Reserve System approves the establishment of a branch in the Medical Plaza Building located at Prytania and Foucher Streets, New Orleans, Louisiana, provided the branch is established within one year from the date of this letter.

Although the present capital structure does not meet acceptable standards, this branch is being approved in view of the small additional investment in bank premises, the minimum of expansion involved, and the pending increase in capital structure. While such an increase will strengthen the capital structure, it would not provide an adequate capital account. The Board wishes to stress the need for further strengthening the capital structure of the bank as rapidly as possible, and suggests that serious consideration be given to increasing capital funds by $1,000,000 instead of $500,000.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 2
1/11/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 11, 1962.

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

Dear Mr. Comptroller:

In your letter of January 11, 1960, the views of the Board were requested as to the propriety of participation in a common trust fund, established and maintained under provision of Section 17(a) Regulation F, of funds held by a national bank as "custodian" under the Uniform Gifts to Minors Act.

As the language of Section 17(a) is specific in its definition of the fiduciary accounts eligible for investment in a common trust fund and as this language is identical to that in Section 584 Internal Revenue Code in defining and limiting investment in such funds for tax exemption purposes, the Board felt it necessary, prior to expressing its own views on the question, to seek the views of the Commissioner of Internal Revenue.

In a recent letter to the Board, the Commissioner of Internal Revenue has stated that:

> ". . . the question presented is one which cannot satisfactorily be resolved by an administrative ruling but should instead be resolved by legislation. We believe the question is a doubtful one which could be answered either way under present law, . . . that clarifying legislation could be said to afford the only safe means of resolving the problem with finality since the admission to a common investment fund of any participant not within the statutory definition might disqualify the fund and all its participants for the special tax treatment provided for in Section 584(a) of the Code."

As a consequence of the opinion expressed by the Internal Revenue Service, and pending possible amendment of the tax statute, the Board believes it inappropriate for it either to interpret or to amend the provisions of its common trust fund regulations in any manner designed to permit participation in such funds of "custodian" accounts created under the Uniform Gifts to Minors Act.

Very truly yours,

(signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 3
1/11/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 11, 1962

Mr. Gordon A. McLean,
Secretary, Trust Division,
American Bankers Association,
12 East 36th Street,
New York 16, New York.

Dear Mr. McLean:

At a meeting in Washington with representatives of the Board's staff on April 7, 1960, Mr. Hollis B. Pease, then chairman of the Trust Division's Committee on Common Trust Funds and Mr. John Wallace, a member of that committee, expressed interest in the views of the Board concerning the propriety under existing provisions of the Board's common trust fund regulations of investment in such funds of property received and held by a bank as "custodian" under the Uniform Gifts to Minors Act. An administrative interpretation of these regulatory provisions or an amendment thereto which would make such an investment permissible was proposed by the Trust Division representatives.

As the language of Section 17(a) is specific in its definition of the fiduciary accounts eligible for investment in a common trust fund and as this language is identical to that in Section 584 Internal Revenue Code in defining and limiting investment in such funds for tax exemption purposes, the Board felt it necessary, prior to expressing its own views on the question, to seek the views of the Commissioner of the Internal Revenue.

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> ". . . the question presented is one which cannot satisfactorily be resolved by an administrative ruling but should instead be resolved by legislation. We believe the question is a doubtful one which could be answered either way under present law, . . . that clarifying legislation could be said to afford the only safe means of resolving the problem with finality since the admission to a common investment fund of any participant not within the statutory definition might disqualify the fund and all its participants for the special tax treatment provided for in Section 584(a) of the Code."

As a consequence of the opinion expressed by the Internal Revenue Service, and pending possible amendment of the tax statute, the Board believes it inappropriate for it to either interpret or amend the provisions of its common trust fund regulations in any manner designed to permit participation in such funds of "custodian" accounts created under the Uniform Gifts to Minors Act.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
1/11/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 11, 1962

Mr. Carroll Sheehy, Jr.,
Lakeside Corporation,
575 Broadway,
Gary, Indiana.

Dear Mr. Sheehy:

This refers to the request contained in your letter of December 13, 1961, submitted through the Federal Reserve Bank of Chicago, for determination by the Board of Governors of the Federal Reserve System, as to the status of Lakeside Corporation as a holding company affiliate.

The Board understands that the current activities of Lakeside Corporation consist of investing in and financing various business enterprises, and providing financing and director guidance for management of such enterprises; that the Corporation is a holding company affiliate by reason of the fact that it owns over 50 per cent of the shares of stock of Gary Trust and Savings Bank, Gary, Indiana; and that the Corporation does not, directly or indirectly, own or control any stock of, or manage or control, any other banking institution.

In view of these facts, the Board has determined that Lakeside Corporation 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, the Corporation is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act.

If, however, the facts should at any time indicate that Lakeside Corporation 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. Should future acquisitions by, or activities of, the Corporation or

its subsidiaries, particularly, investments in stocks of other banks even though not constituting control, result in the Corporation's attaining a position whereby the Board may deem desirable a determination that the Corporation is engaged as a business in the holding of bank stocks, 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.

Item No. 5
1/11/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 11, 1962

Mr. C. Herbert Cornell, President,
Lenroc, Inc.,
2338 Central Avenue, Northeast,
Minneapolis 18, Minnesota.

Dear Mr. Cornell:

This refers to the request contained in your letter of June 28, 1961, submitted through the Federal Reserve Bank of Minneapolis, for determination by the Board of Governors of the Federal Reserve System, as to the status of Lenroc, Inc. as a holding company affiliate.

The Board understands that Lenroc, Inc. is engaged primarily in the business of investing in corporate securities and in real estate; that the Corporation is a holding company affiliate by reason of the fact that it owns over 50 per cent of the outstanding shares of common stock of Fidelity Securities and Investment Company, Minneapolis, Minnesota, which in turn owns a majority of the outstanding common stock of Fidelity Bank and Trust Company, Minneapolis, Minnesota; and that the Corporation does not, directly or indirectly, own or control any stock of, or manage or control, any other banking institution.

In view of these facts, the Board has determined that Lenroc, Inc. 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, as amended; and, accordingly, the Corporation is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act.

If, however, the facts should at any time indicate that Lenroc, Inc. 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 further determination of this matter at any time on the basis of the then existing facts. Particularly, should future acquisitions by, or activities of, the Corporation or any

subsidiary thereof result in its attaining a position whereby the Board may deem desirable a determination that the Corporation is engaged as a business in the holding of bank stocks, 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.

Item No. 6
1/11/62

January 11, 1962

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

Attention: Mr. G. W. Garwood,
Deputy Comptroller of the Currency.

Dear Mr. Comptroller:

Reference is made to a letter from your office dated August 29, 1961, enclosing copies of an application to organize a national bank at San Antonio, Texas, and requesting a recommendation as to whether or not the application should be approved.

A report of investigation of the application made by an examiner for the Federal Reserve Bank of Dallas indicated that a capital structure of $500,000 would be provided rather than $400,000 as originally indicated. A capital structure of $500,000 would appear adequate. Earnings prospects for the proposed bank are poor, management is not of the type considered satisfactory for a new bank, and there appears to be little need for the proposed bank. Accordingly, the Board of Governors does not feel justified in recommending favorable consideration of this proposal.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.