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Minutes for January 26, 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

mm

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 Friday, January 26, 1962. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Thomas, Adviser to the Board  
Mr. Young, Adviser to the Board and Director,  
Division of International Finance  
Mr. Fauver, Assistant to the Board  
Mr. Noyes, Director, Division of Research  
and Statistics  
Mr. Koch, Adviser, Division of Research and  
Statistics  
Mr. Landry, Assistant to the Secretary  
Mr. Yager, Chief, Government Finance Section,  
Division of Research and Statistics

Money market review. Mr. Yager reviewed recent developments in  
the money market, following which Mr. Thomas reported on reserves, bank  
credit, and related matters.

At the conclusion of this presentation Messrs. Thomas, Young,  
Noyes, Koch, and Yager withdrew and the following entered the room:

Mr. Kenyon, Assistant Secretary  
Mr. Hackley, General Counsel  
Mr. Solomon, Director, Division of Examinations  
Mr. Johnson, Director, Division of Personnel  
Administration  
Mr. Hexter, Assistant General Counsel  
Mr. Chase, Assistant General Counsel  
Mr. Conkling, Assistant Director, Division  
of Bank Operations  
Mr. Leavitt, Assistant Director, Division  
of Examinations

Discount rates. The establishment without change by the Federal  
Reserve Banks of New York, Cleveland, Richmond, St. Louis, Minneapolis,

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Kansas City, and Dallas on January 25, 1962, 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.

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

	<u>Item No.</u>
Letter to the Federal Reserve Bank of Chicago authorizing the waiver of a penalty incurred by National Bank of Waupun, Waupun, Wisconsin, because of a deficiency in its required reserves.	1
Letter to The Peru Trust Company, Peru, Indiana, approving an extension of time to establish a branch at the Bunker Hill Air Force Base, Miami County.	2
Letter to the Federal Reserve Bank of Richmond approving the payment of salary to an officer at the rate fixed by the Bank's Board of Directors.	3
Letter to the Federal Reserve Bank of St. Louis approving the payment of salary to two officers at the Little Rock Branch and one at the Memphis Branch at the rates fixed by the Bank's Board of Directors.	4

Messrs. Johnson and Conkling withdrew from the meeting at this point.

Branch application of Wells Fargo Bank American Trust Company (Item No. 5). There had been circulated a draft of letter to Wells Fargo Bank American Trust Company, San Francisco, California, approving an extension of time to establish a branch in the vicinity of Saratoga-

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Sunnyvale Road and Stevens Creek Road, Cupertino, Santa Clara County.

When the file was in circulation, Governor Shepardson indicated that he had a question concerning the requested extension of time.

Governor Shepardson stated that it appeared from the record in this case that the branch application was premature, and that there was still uncertainty regarding a branch building site.

Mr. Leavitt's reply was to the effect that in the present case there was admittedly an indication of the application having been granted prematurely. However, it was understood that the bank intended to reach a definite decision on the branch site very shortly. Further, there was no indication that applicant in the past had been active in seeking extensions of time for establishing approved branches.

There followed a discussion based on a memorandum from the Division of Examinations dated January 12, 1962, concerning the status of branch applications filed by the three largest State member banks in California. This memorandum presented a tabulation of actions taken by these banks pursuant to branch approvals given by the Federal Reserve and the State authorities. It also presented a tabulation of applications filed by the three banks but not yet acted upon, from which it appeared that a substantial number of applications, some of old dates, were pending with the State Banking Department and the Federal Reserve Bank, while others had been filed with the State Banking Department but not with the Reserve Bank. Most of those approved by the State, but not yet acted upon by the Board, were shown to be in the stage of active processing

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by the Reserve Bank for transmittal to the Board.

It was the expressed sentiment of the members of the Board that the maintaining of a file of unprocessed applications constituted an undesirable practice, since it appeared to work in favor of the preempting of branch sites by the larger banks and thus operate to the detriment of smaller banks and the establishment of new independent banks. With reference to the practice of national banks in filing for branches in California, it was stated that the Comptroller of the Currency had recently conferred with the State Superintendent of Banks. It was also stated, by Governor Robertson, that the Comptroller had been invited to discuss the banking situation in California with the Board, but that the Comptroller's schedule had precluded arranging a meeting thus far. The opinion was expressed that in any event, that is, regardless of the practice followed by national banks in California, it would be desirable if branch applications of State member banks in that State were processed promptly as received. This led to the suggestion that a letter be sent to all Federal Reserve Banks indicating that in the Board's opinion applications for branches received by the respective Banks should be processed expeditiously and transmitted to the Board. There was unanimous agreement with this suggestion and it was understood that a letter along such lines would be prepared. It was also agreed that appropriate advice of the Board's position should be transmitted to the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

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Secretary's Note: This matter was discussed further at the meeting on January 29, 1962.

With reference to the extension of time requested by Wells Fargo Bank American Trust Company to establish a branch in Cupertino, Santa Clara County, it was agreed unanimously to grant an extension of time to August 10, 1962, provided that within 90 days the bank made definite arrangements for establishing the branch. A copy of the letter sent to the applicant bank in accordance with this action is attached as Item No. 5.

Report on competitive factors (Mifflintown-Millerstown, Pennsylvania). Distribution had been made under date of January 19, 1962, of a draft report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of The Juniata Valley National Bank of Mifflintown, Mifflintown, Pennsylvania, and The First National Bank of Millerstown, Millerstown, Pennsylvania. The conclusion of the report read as follows:

Investigation discloses that competition between The Juniata Valley National Bank of Mifflintown and The First National Bank of Millerstown is negligible. Although the consolidation would make The Juniata Valley National Bank the largest bank in the area, it does not appear that the proposal would have adverse effects on other banks.

There being no objection, the report was approved unanimously for transmission to the Comptroller of the Currency.

Application to organize national bank at Sealy, Texas. There had been circulated a draft of letter to the Comptroller of the Currency recommending favorably with respect to an application to organize a national bank in Sealy, Texas. The Federal Reserve Bank of Dallas had suggested an unfavorable recommendation.

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In a discussion of the proposed letter, Mr. Leavitt summarized the facts of the case and stated reasons why the Division of Examinations had concluded that a favorable recommendation would be justified. His comments were based on the information set forth in the file that had been circulated.

Governor Shepardson observed that the area was predominantly made up of large farms, which suggested that the bulk of the banking business would be likely to continue to gravitate toward the larger nearby community of Bellville. In consequence, it seemed doubtful to what extent a second bank in Sealy would be able to attract substantial accounts. If the other members of the Board were disposed to favor the recommendation proposed by the Division of Examinations in this instance, he would not oppose it, yet he felt that the views of the Dallas Reserve Bank deserved consideration.

The other members of the Board having expressed themselves as inclined to recommend favorably on the application, it was decided to inform the Dallas Reserve Bank of the Board's inclination and to inquire whether the Bank had further comments on the matter.

Secretary's Note: The matter was discussed further at the meeting on January 29, 1962.

Recommendations of Dallas Bank on charter applications. In connection with consideration of the aforementioned item, it was noted that on several occasions the Federal Reserve Bank of Dallas suggested unfavorable recommendations to the Comptroller of the Currency on

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applications to organize national banks, but that the Board, after analysis of the available information, had made favorable recommendations. It was stated that President Irons of the Dallas Bank had mentioned this circumstance recently to certain members of the Board.

The suggestion made and agreed upon at this meeting was that Mr. Solomon take the opportunity of the forthcoming Conference of Representatives of the Reserve Bank Examination Departments to have a full discussion with Vice President Pondrom, not for the purpose of suggesting that the Reserve Bank should conform to any line of reasoning with which it did not agree but rather to spell out some of the factors that were influential in the Board's reasoning and to obtain from Mr. Pondrom the benefit of views that the Reserve Bank would consider it advisable for the Board to take into consideration.

In this connection, Governor Shepardson commented on the rural banking situation in Texas in general terms, pointing out among other things that commercial banks, in order to be fully responsive to the present-day needs of agricultural enterprises, should be prepared to offer a range of credit and related services. This suggested a need for banks of sufficient size to provide such services, which factor might counterbalance in some instances the objective of providing an increased number of competitive banking units. Should the available deposits be split up to such extent that banking services were inadequate to the requirements of an area, the result might be an increasing resort

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to Government sponsored facilities and to outside sources of accommodation.

Another point of view, discussed by Governor Mitchell, stressed the theory, in a free enterprise system, of allowing those parties willing to risk their funds an opportunity to enter business and provide competition. While a number of marginal situations might be expected to appear in considering bank charter applications, adherence to such a theory would suggest a generally sympathetic approach. It was noted, also, that many agricultural areas could not be expected to generate enough savings to take care of the credit needs, so that in any event it would be necessary for some credit to be obtained from outside the area.

Question under section 8 of Clayton Act (Item No. 6). Section 8 of the Clayton Act makes it unlawful for an officer or a director of a member bank to be an officer or director of any other bank, with certain exceptions. One exception provides that an officer or director of a member bank may also be an officer or director of:

"(4) A bank, banking association, savings bank, or trust company, more than 50 per centum of the common stock of which is owned directly or indirectly by persons who own directly or indirectly more than 50 per centum of the common stock of such member bank."

Bank Stock Corporation, Milwaukee, Wisconsin, which owned the controlling stock of Marshall and Ilsley Bank, also of that city, had filed with the Board an application for approval of its acquisition of the controlling stock of Silver Spring Bank, a newly organized bank in the same community, and the latter bank had filed with the Federal Deposit Insurance Corporation an application for deposit insurance.

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In approving the new bank's application for insurance, the Federal Deposit Insurance Corporation set as a condition that the applicant become a subsidiary of Bank Stock Corporation.

Under date of January 12, 1962, General Counsel for the Federal Deposit Insurance Corporation had written the Board inquiring as to the status of this case under section 8 of the Clayton Act should the Board deny the holding company's application to acquire stock of the new bank. In a memorandum from the Legal Division dated January 18, 1962, copies of which had been distributed, it was noted that if the application were granted by the Board, the holding company would own more than 50 per cent of the stock of each bank and the exception quoted above would clearly be applicable. Moreover, in the opinion of the Legal Division, a literal interpretation of the exception made it applicable even if the Board should not grant the holding company application, since in that circumstance the stock of Silver Spring Bank, except for one share, would be owned by seven individual stockholders of the Marshall and Ilsley Bank, and the one remaining share would be held by the holding company. The result would be that these seven individuals and the holding company would together own all the shares of Silver Spring Bank and a majority of the shares of Marshall and Ilsley Bank. Although it seemed fairly obvious that the holding company was acquiring one share of stock of Silver Spring Bank for the sole purpose of making the exception applicable, and it could be argued that this constituted

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avoidance of the restriction that the Congress had intended to impose, nevertheless the statute was explicit and clear. Accordingly, the Legal Division, although not happy over the result, was of the opinion that the exception was applicable. Attached to the memorandum was a draft of letter to the Federal Deposit Insurance Corporation that would express the foregoing view.

After Mr. Chase had commented on the situation described in the memorandum, Mr. Hackley noted that the device being used in the Milwaukee case seemed clearly one designed to circumvent the statute. He suggested, therefore, that the Board might want to consider adding to the proposed letter to the Federal Deposit Insurance Corporation language which would indicate that although the arrangement seemed to fall literally within the terms of the statute, it would seem inconsistent with the spirit and purpose of the statute.

There followed discussion of the facts of the case, the circumstances in which the question had been raised, the relevance of the question to the pending application of Bank Stock Corporation, and the circumstances in which a similar question was involved in a holding company situation in Florida. Reference also was made to the possibility of seeking a change in the law.

Governor Mills then commented that the proposed letter, as it stood, would appear to be the only answer that could be given in light of the statute. The Board must read the law literally and give an opinion

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within the latitude permitted by the law. Thus, he did not see how the proposed arrangement could be forbidden.

Governor Robertson expressed agreement with the interpretation set forth in the proposed letter based on a literal reading of the language of the statute. However, he felt that the proposed arrangement clearly constituted a device used to avoid the application of the law relating to interlocking directorates and that the Board should express that view. He felt that such a statement would be effective if made known to the holding company, to which he added that expressions of this kind were used frequently in the field of bank supervision. He also commented that even if the Board were to advise the Federal Deposit Insurance Corporation that the arrangement appeared to fall within the exception to section 8 of the Clayton Act, the Corporation nevertheless could, if it chose, include a condition in this regard incident to the granting of deposit insurance.

Other members of the Board expressed concurrence with the addition of language to the proposed letter along the lines mentioned. Accordingly, Governor Mills' reservations having been noted, approval was given to a letter to the Federal Deposit Insurance Corporation in the form attached as Item No. 6.

The meeting then adjourned.

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

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Memorandum from the Division of International Finance recommending the appointment of James K. Nettles as Economist in that Division, with basic annual salary at the rate of \$10,635, effective the date of entrance upon duty, with the understanding that Mr. Nettles would be reimbursed for his moving expenses from the San Francisco area to a residence in the Washington area, including transportation and per diem while in travel status, as well as transportation for his immediate family.

Letter to the Federal Reserve Bank of New York (attached Item No. 7) approving the appointment of Julius A. Nicolai as assistant examiner.



Secretary

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

Item No. 1  
1/26/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 26, 1962

Mr. Laurence H. Jones, Vice President  
and Cashier,  
Federal Reserve Bank of Chicago,  
Chicago 90, Illinois.

Dear Mr. Jones:

This refers to your letter of January 11, regarding the penalty of \$145.75 incurred by the National Bank of Waupun, Waupun, Wisconsin, on a deficiency of 14.9 per cent in its required reserves for the computation period ended December 27, 1961.

It is noted that the deficiency resulted from the fact that a transfer draft of \$300,000 drawn on a Chicago bank was delayed in the congested holiday mail and did not reach the Reserve Bank until too late for collection on Friday, December 22; if the draft had arrived one and one-half hours earlier, it would have been collected that day instead of Tuesday, December 26; and that the bank has an excellent record of maintaining an adequate reserve balance, ordinarily maintaining a large excess reserves.

In the circumstances, and in view of your recommendation, the Board authorizes your Bank to waive assessment of the penalty of \$145.75 for the period ended December 27, 1961.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.



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

Item No. 2  
1/26/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 26, 1962



Board of Directors,  
The Peru Trust Company,  
Peru, Indiana.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to January 28, 1963, the time within which The Peru Trust Company, Peru, Indiana, may establish a branch at the Bunker Hill Air Force Base, Miami County, Indiana, as approved by the Board in its letter of July 27, 1961.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

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

Item No. 3  
1/26/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 26, 1962

CONFIDENTIAL (FR)

Mr. Alonzo G. Decker, Jr., Chairman,  
Federal Reserve Bank of Richmond,  
Richmond 13, Virginia.

Dear Mr. Decker:

The Board of Governors approves the payment of salary to the following officer of the Federal Reserve Bank of Richmond for the period February 1 through December 31, 1962, at the rate indicated, which is the rate fixed by your Board of Directors as reported in your letter of January 15, 1962:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
Arthur V. Myers, Jr.	Assistant Cashier	\$11,000

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 4  
1/26/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



January 26, 1962

CONFIDENTIAL (FR)

Mr. Darryl R. Francis,  
First Vice President,  
Federal Reserve Bank of St. Louis,  
St. Louis 66, Missouri.

Dear Mr. Francis:

The Board of Governors approves the payment of salary to Mr. Howard J. Jensen as Assistant Cashier of the Little Rock Branch for the period February 1 through December 31, 1962, at the rate of \$8,500 per annum; to Mr. John F. Breen, Jr., as Cashier of the Little Rock Branch for the period March 1 through December 31, 1962, at the rate of \$11,500 per annum; and to Mr. Joseph P. Garbarini, Sr., as Assistant Cashier of the Memphis Branch for the period March 1 through December 31, 1962, at the rate of \$8,500 per annum. According to your letter of January 16, 1962, these are the salaries which have been fixed by the Board of Directors of the Federal Reserve Bank of St. Louis.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 5  
1/26/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 26, 1962

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

Gentlemen:

The Board of Governors of the Federal Reserve System extends to August 10, 1962, the time within which Wells Fargo Bank American Trust Company may establish a branch in the vicinity of the intersection of Saratoga-Sunnyvale Road and Stevens Creek Road, Cupertino, Santa Clara County, California, under the authorization contained in the Board's letter of February 10, 1961. This extension is granted on condition that definite arrangements for establishing this branch have been made within ninety days.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.



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

Item No. 6  
1/26/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 26, 1962

Mr. Royal L. Coburn,  
General Counsel,  
Federal Deposit Insurance Corporation,  
Washington 25, D. C.

Dear Mr. Coburn:

Your letter of January 12, 1962, presents the question whether section 8 of the Clayton Act will prohibit the services of certain officers and directors of Marshall and Ilesley Bank as officers or directors of Silver Spring Bank, both of Milwaukee, Wisconsin, in the event that Bank Stock Corporation which now owns the controlling stock of the first-named bank does not acquire controlling interest of the second-named bank.

It appears that if Bank Stock Corporation does not acquire the controlling stock of the second bank, the stock ownership will be as follows: seven individuals who are all stockholders in Marshall and Ilesley Bank will own all but one share of Silver Spring Bank. The remaining share will be owned by Bank Stock Corporation, which, as stated above, owns controlling stock of Marshall and Ilesley Bank.

Section 8 of the Clayton Act makes it unlawful for a director of a member bank to be an officer or director of any other bank, with certain exceptions, one of which is:

"(4) A bank, banking association, savings bank, or trust company, more than 50 per centum of the common stock of which is owned directly or indirectly by persons who own directly or indirectly more than 50 per centum of the common stock of such member bank."

Your question is whether this exception would be applicable. The Board is of the opinion that it would be, because the seven individuals plus the holding company would own all the

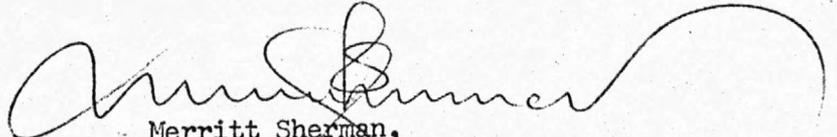
Mr. Royal L. Coburn

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shares of the Silver Spring Bank and would own a majority of the shares of the Marshall and Ilsley Bank.

However, it seems clear that the one share would be acquired solely for the purpose of making the exception applicable and that there would be compliance only with the form of the law and not with its spirit and intent.

Very truly yours,



Merritt Sherman,  
Secretary.

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

Item No. 7  
1/26/62

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



January 26, 1962.

Mr. Howard D. Crosse, Vice President,  
Federal Reserve Bank of New York,  
New York 45, New York.

Dear Mr. Crosse:

In accordance with the request contained in your letter of January 23, 1962, the Board approves the appointment of Julius A. Nicolai as an assistant examiner for the Federal Reserve Bank of New York. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael,

Elizabeth L. Carmichael,  
Assistant Secretary.