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Minutes for April 27, 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

RM

Gov. Mills

[Signature]

Gov. Robertson

R

Gov. Balderston

CB

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Gov. Mitchell

[Signature]

Minutes of the Board of Governors of the Federal Reserve System
on Friday, April 27, 1962. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman 1/
Mr. Mills
Mr. Shepardson
Mr. Mitchell

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Adviser to the Board
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Hexter, Assistant General Counsel
Mr. Landry, Assistant to the Secretary

Messrs. Noyes, Garfield, Holland, Williams,
Brill, Dembitz, Solomon, Eckert, Keir,
Peret, Taylor, and Weiner of the Division
of Research and Statistics

Messrs. Furth, Hersey, and Reynolds of the
Division of International Finance

Economic projections. Messrs. Brill, Weiner, and Taylor presented a projection of alternative patterns of economic developments for the remainder of 1962. Copies of the text of the presentation and accompanying charts and tables have been placed in the Board's files.

Following this presentation, members of the Division of Research and Statistics, except Messrs. Holland, Brill, and Eckert, and members of the Division of International Finance, except Mr. Furth, withdrew and the following entered the room:

1/ Entered meeting at point indicated in minutes.

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Mr. Farrell, Director, Division of Bank
Operations
Mr. Solomon, Director, Division of Examinations
Mr. Goodman, Assistant Director, Division of
Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Langham, Chief, Call Report Section,
Division of Bank Operations
Mr. Veenstra, Technical Assistant, Division
of Bank Operations
Mr. Poundstone, Review Examiner, Division of
Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on April 26, 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.

Circulated items. 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 Wilmington Trust Company, Wilmington, Delaware, approving an investment in bank premises.	1
Letter to Beloit Savings Bank, Beloit, Wisconsin, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	2

Questions raised in examinations of Edge Act corporations. Copies of memoranda from Mr. Goodman dated April 23, 1962, regarding International

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Banking Corporation and April 26, 1962, regarding Chemical International Finance, Ltd., both of New York City, had been distributed. The memoranda referred to certain questions raised by the examination of the former institution as of December 7, 1961, and of the latter as of November 24, 1961. Attached to the memoranda were drafts of letters to the respective Edge Act corporations that would call attention to the questioned transactions, in the light of current provisions of Regulation K, Corporations Doing Foreign Banking or Other Foreign Financing Under the Federal Reserve Act. Each of the draft letters would indicate that the questions raised related to subjects that were to be considered as part of the over-all review of Regulation K currently under way, that in the circumstances no requirement would be made at present with regard to the criticized items, but that no further commitments of comparable nature should be made pending completion of the review of the Regulation.

Following comments by Mr. Goodman on his memoranda and the draft letters, Governor Mitchell suggested that it would be unfortunate to have transmitted the proposed letters to the respective Edge Act corporations if Regulation K should subsequently be changed to permit the practices in question.

There being agreement with the view expressed by Governor Mitchell, it was decided unanimously to take no action on the proposed letters at this time.

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

Report on competitive factors (South River-Sayreville, New Jersey).

Distribution had been made under date of April 20, 1962, of a draft report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of The First National Bank of Middlesex County, South River, New Jersey, and The First National Bank of Sayreville, Sayreville, New Jersey. The conclusion of the report read as follows:

Consummation of the proposed consolidation would eliminate competition between two banks now competing directly with each other and would eliminate the availability of an alternative source of banking facilities in an area containing only three independent banks. The proposal might well have adverse effects on the one other remaining independent bank in South River, which would be competing with a bank more than four times its size.

Governor Mills observed that although the foregoing conclusion reflected the views of the New York Reserve Bank, he was concerned about the economic character of the New Jersey area that was essentially a populous tributary of New York City. In his view, a study would be desirable at some point to determine the type of banking services from which this area would derive the most benefit. At present, he was inclined to feel that the area stood to benefit by a trend toward consolidation of smaller banks. However, lacking complete information regarding the area and its needs, he would not propose a change in the wording of the conclusion of this particular report.

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Following further discussion, during which other members of the Board concurred in the view that information of the kind referred to by Governor Mills would be helpful, the report was approved unanimously for transmission to the Comptroller of the Currency.

Applications of General Bancshares Corporation (Items 3-5).

Pursuant to the favorable decision reached by majority vote at the meeting on April 10, 1962, there had been distributed drafts of an order, a majority statement, and a dissenting statement of Governors Robertson and Mitchell regarding applications of General Bancshares Corporation, St. Louis, Missouri, for approval of the acquisition of shares of Commercial Bank of St. Louis County, Olivette, Missouri, and Lindbergh Bank, Hazelwood, Missouri.

After discussion, during which it was indicated that Governor Robertson, who was absent from today's meeting, had expressed his satisfaction with the dissenting statement, the issuance of the order and statements was authorized. Copies of the order, majority statement, and dissenting statement are attached hereto as Items 3, 4, and 5, respectively.

Reports of condition. Copies had been distributed of a letter from the Comptroller of the Currency dated April 25, 1962, enclosing a sample report of condition intended for use in future calls on national banks other than the year-end call. The letter, which called attention to the fact that many of the memorandum items and most of the

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schedules on the back of the call report had been eliminated, requested at the Board's earliest convenience any comments it might wish to make on this matter. The letter also indicated that the revised report forms would be ordered from the printer within the next few days.

Governor Mills stated that word had been received by telephone that the Federal Deposit Insurance Corporation was disturbed by the proposal of the Comptroller, and that the Corporation was anxious to know of the Board's reaction. Governor Mills observed that since the information proposed to be dispensed with was helpful to an understanding within the Government of financial movements, it would seem advisable to inform the Bureau of the Budget, which had a responsibility for Government statistical standards and might want to take the matter up with the Comptroller.

In commenting on the proposal, Mr. Farrell noted that Mr. Langham had prepared a memorandum, dated April 27, listing the effects on banking statistics published by the Board and the Federal Deposit Insurance Corporation should the Comptroller's proposal be adopted. The memorandum suggested three alternatives that might be considered by the Board should the Comptroller make the proposed changes in the report form. One alternative was to adopt the form used by the Comptroller; another was to keep the Board's current form for use by State member banks. A third alternative was to obtain condition report data from national banks on forms now used by State member banks.

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Mr. Holland indicated that the Division of Research and Statistics would like to enter a strong plea for continued use of the report of condition in its present form. He said that a memorandum on the subject would be made available to the Board shortly.

Governor Balderston joined the meeting at this point.

In the discussion that ensued, question was raised as to the legal basis for requiring from national banks the information that would be eliminated from the call reports under the Comptroller's proposal.

In reply, Mr. Hexter noted that under section 11 of the Federal Reserve Act the Board was authorized and empowered to examine at its discretion the accounts, books, and affairs of each member bank and to require such statements and reports as it might deem necessary. This power had not heretofore been utilized with respect to national banks. If necessary, however, Mr. Hexter felt that the Board could require each national bank to make a separate report to the Board to provide information the Board deemed necessary.

It being indicated that the Board members present would favor obtaining from national banks on a separate report, if necessary, the banking data that would be eliminated by the Comptroller's proposal, it was understood that a draft of letter to the Comptroller would be prepared, in terms that the Board regarded the statistical information concerned to be of such value that it would feel compelled to request

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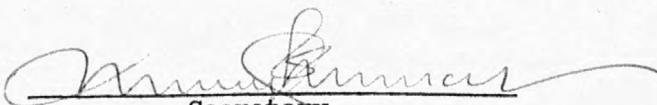
it of national banks should the Comptroller not do so. It was further understood that the Federal Deposit Insurance Corporation would be advised by Governor Mills of the Board's present thinking on this question and that the Budget Bureau would be informed of the Comptroller's proposal.

The meeting then adjourned.

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

Memorandum from the Office of the Secretary recommending an increase in the basic annual salary of Lee E. Sawyer, Clearing Assistant in that Office, from \$4,840 to \$5,160 per annum, effective April 29, 1962.

Letter to the Administrator of the General Services Administration, Washington, D. C., advising that Joseph E. Kelleher, Director, Division of Administrative Services, has been designated as the Board official with whom GSA may coordinate in connection with the development of a new Federal Telecommunications System.


Secretary

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

Item No. 1
4/27/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 27, 1962.

Board of Directors,
Wilmington Trust Company,
Wilmington, Delaware.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an investment of \$287,070.14 in bank premises. Of this amount, \$27,770.14 represents additional investments made at six branch offices during 1961, as outlined in your letter of April 4, 1962, and \$89,300 represents transfer of the Dover property formerly carried in other real estate to bank premises. The remaining \$170,000 is for improvements at the following offices:

Claymont Office	\$150,000
Newport Office	10,000
Newark Office	7,500
Brandywine Office	2,500

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. 2
4/27/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 27, 1962.

Board of Directors,
Beloit Savings Bank,
Beloit, Wisconsin.

Gentlemen:

The Federal Reserve Bank of Chicago has forwarded to the Board of Governors your letter dated March 22, 1962, together with the accompanying resolution signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

In accordance with your request, the Board of Governors waives the requirement of six months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of Chicago of the Federal Reserve Bank stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon. Under the provisions of Section 10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date the notice of intention to withdraw from membership was given.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of Chicago.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

UNITED STATES OF AMERICA

Item No. 3
4/27/62

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Applications of
General Bancshares Corporation

For prior approval of acquisition of
up to 100 per cent of the voting shares
of Commercial Bank of St. Louis County,
Olivette, Missouri, and Lindbergh Bank,
Hazelwood, Missouri.

ORDER APPROVING APPLICATIONS UNDER
BANK HOLDING COMPANY ACT

There have come before the Board of Governors, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 (12 USC 1842) and section 4(a)(2) of Federal Reserve Regulation Y (12 CFR 222.4(a)(2)), applications on behalf of General Bancshares Corporation, St. Louis, Missouri, for the Board's prior approval of the acquisition of up to 100 per cent of the voting shares of Commercial Bank of St. Louis County, Olivette, Missouri, and of Lindbergh Bank, Hazelwood, Missouri; a Notice of Receipt of Applications has been published in the Federal Register on October 27, 1961 (26 Federal Register 10115), which provided an opportunity for submission of comments and views regarding the proposed acquisitions; and such comments and views as were received have been considered by the Board. Accordingly,

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IT IS ORDERED, for the reasons set forth in the Board's Statement of this date, that said applications be and hereby are granted, provided that the acquisitions approved herein shall not be consummated (a) sooner than seven calendar days after the date of this Order or (b) later than three months after said date.

Dated at Washington, D. C., this 27th day of April, 1962.

By order of the Board of Governors.

Voting for this action: Chairman Martin, and
Governors Balderston, Mills, and King.

Voting against this action: Governors Robertson,
Shepardson, and Mitchell.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 4
4/27/62

APPLICATIONS BY GENERAL BANCSHARES CORPORATION FOR
APPROVAL OF THE ACQUISITION OF STOCK OF
COMMERCIAL BANK OF ST. LOUIS COUNTY, OLIVETTE, MISSOURI,
AND LINDBERGH BANK, HAZELWOOD, MISSOURI

STATEMENT

General Bancshares Corporation, St. Louis, Missouri ("Applicant"), a bank holding company, has applied, pursuant to section 3(a)(2) of the Bank Holding Company Act of 1956 ("the Act"), for the Board's prior approval of the acquisition of up to 100 per cent of the voting shares of Commercial Bank of St. Louis County, Olivette, Missouri, and Lindbergh Bank, Hazelwood, Missouri.

Views and recommendations of supervisory authority. - Pursuant to section 3(b) of the Act, the Commissioner of Finance for the State of Missouri was asked for his views and recommendations. He interposed no objection to approval of the applications.

Statutory factors. - Section 3(c) of the Act requires the Board to take into consideration the following five factors: (1) the financial history and condition of the holding company and banks concerned; (2) their prospects; (3) the character of their management; (4) the convenience, needs, and welfare of the communities and the

areas concerned; and (5) whether the effect of the acquisitions would be to expand the size or extent of the bank holding company system involved beyond limits consistent with adequate and sound banking, the public interest, and the preservation of competition in the field of banking.

Discussion. - Applicant, a registered bank holding company, with head office in St. Louis, Missouri, controls eight banks - one in Tennessee, three in Illinois, and four in Missouri. The Missouri banks are all located in the City of St. Louis. At December 31, 1961, the eight banks in Applicant's system held total deposits of \$275 million; Applicant's four St. Louis banks held total deposits of \$207 million.

Commercial Bank is in the city of Olivette, about 12 miles west of the central business section of St. Louis. Olivette's 1960 population was 8,300, an increase of 6,500 over 1950. Commercial Bank's primary service area (the area from which about 75 per cent of its total deposits originate) comprises Olivette, parts of the adjoining cities of University City, Ladue, Overland, and Creve Coeur, and a portion of the unincorporated area of St. Louis County. The estimated population of this area is 15,000. No other bank is located in Commercial Bank's primary service area. Commercial Bank commenced operations in June 1959 and at December 31, 1961, held deposits of \$2.7 million.

Lindbergh Bank is in the village of Hazelwood, about 13 miles northwest of the central business section of St. Louis. The 1960 population of the village was 6,000, an increase of 5,700 over 1950.

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Lindbergh Bank's primary service area, with an estimated population of 20,000, encompasses Hazelwood, portions of the cities of Florissant and Berkeley, the town of Bridgeton, and a portion of the unincorporated area of St. Louis County. No other bank is located within this service area. Lindbergh Bank was established in March 1961 and at December 31 of that year, it held deposits totaling \$1.9 million.

The financial history and condition of Applicant, Commercial Bank, and Lindbergh Bank are satisfactory. While Applicant's prospects are not unfavorable, as hereinafter discussed it appears that they would be somewhat bettered as a result of the acquisitions proposed. The prospects of Commercial Bank and Lindbergh Bank are satisfactory. The character of management of Applicant and of the proposed subsidiary banks is also satisfactory.

As to the convenience, needs, and welfare of the communities and areas involved, the facts relating to the two proposed subsidiaries are similar in several respects. Their primary service areas, both encompassing portions of St. Louis suburbs, have experienced substantial population, industrial, and commercial growth in the past 10 years, and there is evidence of continued growth. It appears that the growth in these areas is due in large part to the movement of population and industry from the City of St. Louis. In this connection, Applicant describes as unimpressive the growth prospects of at least two of its present subsidiaries, which are located in areas of St. Louis whence

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the residential and commercial exodus has occurred. Inasmuch as Applicant's prospects are largely dependent upon the prospects of its banking subsidiaries, the extent to which the prospects for continued growth on the part of any of its St. Louis banks are unfavorable, to that same extent Applicant's prospects are adversely affected.

On the other hand, Applicant's prospects would appear to be bettered if, through the acquisitions proposed, it were enabled to participate in and contribute to the growth of the suburbs, partially by serving customers formerly served by its St. Louis banks. This is not to suggest that the banking needs in the pertinent service areas are not being served adequately at this time, nor that the present banks would be unable to provide adequate banking service as these areas are further developed. However, Commercial Bank and Lindbergh Bank, and ultimately the growing communities concerned, can be expected to derive some benefit from the availability, through Applicant's system, of personnel and service techniques geared to and reflecting experience in serving growing residential and commercial areas.

With respect to the fifth factor enumerated above, it is the Board's judgment that the proposed acquisitions will not result in such an expansion of Applicant's system as would exceed limits consistent with adequate and sound banking, the public interest, and preservation of banking competition. At December 31, 1961, Applicant's four Missouri banks operated five of the 661 commercial banking offices in the State and held deposits of \$207 million, representing 3 per cent of the \$6,523 million

of deposits held by all insured commercial banks in Missouri. In both the City and County of St. Louis, where there were 62 commercial banks operating 73 offices at December 31, 1961, the five offices of Applicant's banks represented 7 per cent of such offices, and held deposits of individuals, partnerships, and corporations totaling \$165 million, or 7.4 per cent of the total of such deposits of all insured commercial banks in both the City and County of St. Louis. The latter percentage would be increased by only .2 as a result of the acquisitions proposed.

The competition offered by Applicant's banks to either of the proposed subsidiary banks is insignificant; and it does not appear that this situation will change substantially in the foreseeable future. As earlier noted, Commercial Bank and Lindbergh Bank are the only banks in their respective primary service areas. In terms of total deposits, Commercial Bank is smaller than each of the nine banks with which it may be said to compete. The same is true of Lindbergh Bank in respect to the other six banks located within nine miles of Hazelwood. Three of Commercial Bank's principal competitors, each located within five miles of Olivette, hold deposits ranging from four to thirty-four times those of Commercial Bank. Lindbergh Bank's principal competitor holds about four times the total deposits held by Lindbergh Bank. The Board finds that consummation of these acquisitions should not impede the normal growth of the banks that are competing in varying degrees for business in the primary service areas concerned.

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In view of the nine miles separating Commercial Bank and Lindbergh Bank, and considering that three other banks lie between them, it does not appear that the insignificant extent to which Commercial Bank and Lindbergh Bank presently compete would be increased substantially, even with the projected growth of their respective areas. Thus, present or potential competition between the proposed subsidiaries that might be eliminated by the affiliation proposed is not a significantly adverse consideration.

It is the judgment of the Board, based on the relevant facts considered in the light of the general purposes of the Act and the factors enumerated in section 3(c), that approval of the proposed acquisitions would be consistent with the statutory objectives and the public interest.

April 27, 1962

DISSENTING STATEMENT OF GOVERNORS ROBERTSON AND MITCHELL

Item No. 5
4/27/62

We would deny these applications for the reason that we are unable to find any probable benefit to the public that would offset the features inherent in this proposal which, in our judgment, are adverse to approval. The principal beneficiaries of this proposal appear to be the Applicant and those of its officers and directors who are Banks' organizers and/or shareholders.

Approval of these applications, would seem to place this Board in the position of possibly encouraging officers of banks and bank holding companies to incur exposure to patent conflicts of interest, or to conflicts of interest that may be so intricate and complicated that in tracing their course and impact through a particular application, it may not be possible to determine whether or not they are in fact hostile to the public interest. In this case, certain of Applicant's directors, one of whom is a senior officer of Applicant, acquired interest (in one case controlling interest) in the Banks in question. Applicant's Board of Directors authorized Applicant's purchase of the Banks. In such circumstances, in the course of negotiating the price to be paid for the shares of the Banks, there is no evidence of a test of bargaining involving bids by other interests; seemingly, there could have been only the question of how much the individuals acting in the dual capacity of holding company directors (although they did not actually vote on this matter) and bank shareholders could persuade their colleagues on the Board of Directors

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to vote as a purchase price. The validity of the generous premiums to be paid for Banks' shares, hereafter discussed, could not have been tested against a price that such shares might have brought on the market (neither Bank here has as yet a strong earnings position). In final analysis, the price to be offered for Banks' shares was a decision by a Board of Directors potentially exposed to urgings by parties having a vested interest in the price determinations and who were members of the Board of Directors.

Based on December 31, 1961 figures, the premium that will be paid to Banks' shareholders will total about \$290,000, representing nearly 7 per cent of the Banks' combined total deposits at December 31, 1961. Payment of this premium will have the effect of requiring the Applicant to issue more preferred stock and incur more debt than if Banks' shares were acquired at their book values. The premium will add to the total annual cash requirements of the Applicant by increasing its amortization on term debt and requiring payment of additional dividends on the preferred stock, and will reduce the book value of Applicant's common shares. Admittedly, there are circumstances in which payment in excess of the book value of bank shares can be considered a necessary incident to the acquisition of such shares. However, where, as here, the recipients of approximately two-thirds of the premium paid for Lindbergh Bank and about one-third of the premium paid for Commercial Bank are an officer and/or directors of the organization initiating the proposals involving the premium payments, and when such premiums - which are, indeed, large by any standard - result in additional fixed charges to the paying organization, we would approve

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such a proposal only upon a satisfactory showing of positive benefit either to the banks involved or to the public. Neither showing has been made in this case. On the contrary, while Applicant's financial history has been found to be "satisfactory", it is clear that the consummation of this proposal would have the effect of imposing a further financial burden on Applicant and, as a natural consequence, on its banking subsidiaries. The earnings of its banking subsidiaries will be Applicant's primary source of funds for dividend payments and debt service requirements.

While it is clear that full disclosure regarding the premium to be paid was made by Applicant to its and Banks' shareholders, the fact of disclosure does not meet the basic difficulty we find in the circumstances attending these applications. Their approval could lend encouragement to the organization of banks by holding company representatives based on a "bail out" agreement that could make organizational and initial operational investment relatively riskless, could assure to the bank organizers who are affiliated with the holding company a profitable return on their investments, and would tend to subordinate considerations affecting the benefits to and welfare of the banking communities concerned.

For these reasons we would disapprove the applications.

April 27, 1962