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Minutes for June 5, 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.

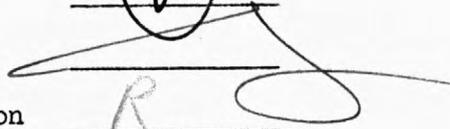
It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

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.

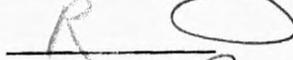
Chm. Martin



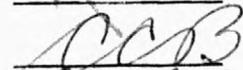
Gov. Mills



Gov. Robertson



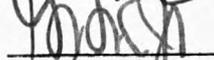
Gov. Balderston



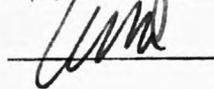
Gov. Shepardson



Gov. King



Gov. Mitchell



Minutes of the Board of Governors of the Federal Reserve System on Tuesday, June 5, 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. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Adviser to the Board and Director,
Division of International Finance
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. Johnson, Director, Division of Personnel
Administration
Mr. Shay, Assistant General Counsel
Mr. Leavitt, Assistant Director, Division of
Examinations
Mrs. Semia, Technical Assistant, Office of
the Secretary
Mr. Egertson, Review Examiner, Division of
Examinations

Branch application of United California Bank (Item No. 1).

There had been circulated a draft of letter approving the establishment of a branch by United California Bank, Los Angeles, California, in Paradise, Butte County, California. The draft letter included a paragraph indicating that, in view of the continuing expansion in the bank's volume of operations, the Board wished to emphasize the need for early consideration of definite steps to augment the bank's capital structure.

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After discussion of the bank's capital position and statements made by the management regarding plans for increasing capital, the suggestion was made that the letter now under consideration make no mention of capital, leaving that question to be handled separately as circumstances seemed to warrant. Agreement having been expressed with that suggestion, a letter limited to the granting of the branch application was approved unanimously. A copy of the letter sent pursuant to this action is attached as Item No. 1.

Regulation N designation. At its meeting on May 29, 1962, the Federal Open Market Committee approved in principle a proposed reciprocal arrangement between the Federal Reserve System and the National Bank of Belgium involving a swap of dollars for Belgian francs. At that time it was contemplated that, since the National Bank of Belgium was prohibited by law from accepting deposits, the Belgian francs accruing to the Federal Reserve would be held in a time deposit with the Bank for International Settlements. On June 1, 1962, the Board designated the Bank for International Settlements as a foreign bank with which accounts payable in foreign currency might be opened by the New York Reserve Bank under the provisions of section 214.5(a) of Regulation N, Relations with Foreign Banks and Bankers. Subsequently, however, the National Bank of Belgium indicated that for policy reasons it would not favor the use of the Bank for International Settlements. Instead, it proposed that the System's Belgian franc holdings be placed in an interest-bearing time deposit with Societe Nationale de Credit a l'Industrie, Brussels, Belgium.

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In a memorandum dated June 4, 1962, which had been distributed, Mr. Hackley discussed certain considerations bearing upon the question of designating Societe Nationale as a "foreign bank" pursuant to Regulation N, which designation would be necessary if the terms of the swap proposed by the National Bank of Belgium were to be accepted. The memorandum pointed out that under section 14(e) of the Federal Reserve Act a Reserve Bank was authorized, with the consent of the Board, "to open and maintain accounts in foreign countries". The law did not specifically require that such accounts be with "banks". However, Regulation N, as amended February 13, 1962, authorized a Reserve Bank to open and maintain accounts only with "such foreign banks" as might be designated by the Board. Accordingly, the question was whether Societe Nationale could properly be considered a "foreign bank" for that purpose.

On the basis of examination of a French language copy of the "Statuts" of the Societe Nationale, it appeared that the organization was a Government-chartered corporation empowered to make loans to industrial and commercial enterprises, and that its functions might be regarded as somewhat similar to those once exercised in this country by the Reconstruction Finance Corporation. Fifty per cent of the organization's stock was owned by the Belgian Government, and the management of Societe Nationale represented "the government and the major associations of labor, industry, agriculture, and the middle classes."

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Article 12 of the "Statuts" authorized Societe Nationale to accept interest-bearing time deposits with a minimum maturity of three months, and did not specifically provide for the possibility of earlier withdrawal.

There might be some doubt whether an organization of that kind would ordinarily be considered a "foreign bank" of the kind contemplated by Regulation N. However, in applying other provisions of the Federal Reserve Act, the Board had generally taken the position that authority to receive deposits was the principal consideration in determining whether a particular organization was a "bank"; and in some cases the Board had regarded an institution as a bank even though its authority was limited to the receipt of time and savings deposits. Accordingly, Mr. Hackley was inclined to feel that Societe Nationale might technically be regarded as a "foreign bank" for purposes of Regulation N.

The memorandum also noted that the Federal Open Market Committee had authority (granted by Regulation N) to approve and regulate negotiations and arrangements with foreign banks for the opening of foreign accounts only to the extent that they were related to effectuating the conduct of open market transactions. Assuming that the effective conduct of open market transactions in foreign currencies depended upon the availability of such currencies on reasonably short notice, it might be questioned whether the investment of a foreign

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currency in a three-month time account would be consistent with those purposes. However, Mr. Hackley understood that the Belgian authorities had assured the New York Reserve Bank that any time deposit held by Societe Nationale in connection with the proposed swap arrangement would be available upon short notice despite the provisions of the governing statute.

There had also been distributed a memorandum dated June 4, 1962, from Mr. Young. In his memorandum, Mr. Young affirmed that, although the Federal Reserve staff read the applicable statute to mean that Societe Nationale could accept interest-bearing time deposits with a minimum maturity of not less than three months, the National Bank of Belgium had informed the New York Reserve Bank that Societe Nationale interpreted its statutes to permit acceptance of interest-bearing deposits subject to withdrawal on two days' notice. According to Article 11 of the statutes, the Belgian Government guaranteed the bonds and certificates issued by Societe Nationale; however, there was no mention of a similar guarantee of deposit liabilities. According to Societe Nationale's balance sheet as of December 31, 1961, deposits accounted for only about two per cent of the balance sheet total. About two-thirds of the organization's liabilities were represented by bonds and certificates.

At Chairman Martin's request, Mr. Hackley commented on the considerations brought out in his memorandum and concluded by saying

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that he believed the question involved was primarily one of policy. If the points he had raised were not considered troublesome, he thought it would be proper for the Board to designate Societe Nationale as a "foreign bank" pursuant to Regulation N.

Mr. Young then discussed some of the negotiations that had attended the proposed swap arrangement, the circumstances in which the Belgians had proposed the use of Societe Nationale as a means of providing interest to the Federal Reserve on its Belgian franc holdings, the questions raised by the Federal Reserve staff upon a reading of the statutes of Societe, the answers given by the National Bank of Belgium to those questions, and the available information on the characteristics of Societe. He brought out that, except for the use of Societe Nationale, the terms of the swap arrangement with the National Bank of Belgium would be along the same lines as the arrangements concluded with other foreign central banks.

The general discussion that followed reflected some reservations about the proposed arrangement for use of Societe Nationale, which involved a departure from the pattern heretofore contemplated for operations in foreign currencies. The seeming inconsistency was noted between the assurances given by the Belgian authorities that withdrawals from the proposed account could be made on two days' notice and the provisions of the statute governing Societe Nationale, which appeared to allow withdrawals only after three months. Question was

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asked as to whether, if the statute did contain technical support for two-day withdrawals, the Belgian authorities could not be asked to cite the pertinent provisions. It was pointed out, however, that the word of the President of the National Bank of Belgium had already been given.

There was also discussion of the fact that Societe Nationale's bonds and certificates were specifically guaranteed by the Belgian Government, but there did not appear to be any similar guarantee of Societe's deposits. General agreement was expressed that any swap arrangement put into effect should provide approximately the same guarantees and protection that had been provided under the swap arrangements already in effect. It was pointed out that consummation of any swap arrangement would be accomplished through an exchange of cables, which would be available for inspection prior to final approval by the Federal Open Market Committee. The possibility was suggested that in this case there might be an exchange of cables not only with the National Bank of Belgium but also with Societe Nationale.

In response to an inquiry from Chairman Martin as to whether he would have concern about the designation of Societe as a bank from the viewpoint of precedent, Mr. Hackley indicated that there was an element of concern in that regard.

Question also was raised as to whether swap arrangements of this kind might be made without interest being paid on either side.

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Comments in response indicated that reasons why that would be impossible were not immediately apparent. It was suggested, therefore, that this possibility might be given further thought by the staff.

After further discussion, it was suggested that the other questions that had been raised at this meeting likewise be explored further by the staff prior to action on the proposed designation of Societe Nationale, after which the matter could be considered again by the Board, and agreement was expressed with this suggestion.

Messrs. Young, Noyes, and Solomon then withdrew.

Application of Southern Bank and Trust Company. There had been distributed a memorandum dated May 29, 1962, in which the Division of Examinations recommended favorably on an application by Southern Bank and Trust Company, Richmond, Virginia, to merge with Citizens Bank of Chesterfield, Bon Air, Virginia, a bank that had not yet opened for business, and to establish a branch at the head office site of Citizens Bank.

At Chairman Martin's request, Mr. Leavitt summarized the circumstances of the proposed merger, as set out in detail in the memorandum. In the course of his comments, he noted that under present Virginia law the only way that a bank could establish a branch outside the limits of the city in which it was situated was through merger with a bank within a 25-mile radius of its head office after both banks had been in existence at least five years. Citizens Bank was organized in

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1958 as an affiliate of Southern Bank (shareholders owning a majority of Southern Bank's stock also owned a majority of Citizens Bank's stock) with the intent of merging the two banks after five years and replacing Citizens Bank with a branch of Southern Bank. The Virginia law was recently amended to permit a bank to establish a branch within a five-mile radius of the limits of the city in which the bank was located. This provision was to be effective June 29, 1962, at which time Southern Bank would be legally able to establish a branch in Bon Air, which was less than five miles from the Richmond city limits. Therefore, the merger application could be considered almost the equivalent of a branch application; had a branch application been filed, the Division of Examinations would have recommended approval.

In discussion, Governor Robertson brought out that under the terms of the proposed merger the stock of Citizens Bank would be exchanged at a discount rather than a premium. Thus, a loss would be sustained by shareholders of Citizens Bank who were not also shareholders of Southern. While he was not sure that this was a factor that should enter into the Board's consideration of the application, he felt that it might be desirable to have adequate information on the circumstances involved.

After further discussion, the application of Southern Bank and Trust Company was approved unanimously, with the understanding that the Legal Division would draft an order and supporting statement for the

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Board's consideration. It was also understood that the Division of Examinations would check with the Federal Reserve Bank of Richmond on the point referred to by Governor Robertson so that the Board could give the matter such consideration as might seem warranted in the light of the information obtained.

Mr. Egertson then withdrew.

Information on merger applications (Item No. 2). Governor Mills noted that merger transactions involving an exchange of stock frequently provided a substantial premium to the shareholders of the selling bank. In such cases, if the applicant bank distributed its treasury shares to the stockholders of the selling bank, that would result in a dilution of the equity of the stockholders of the larger bank. Banks planning a merger would have to call stockholders' meetings to obtain approval of the proposed transaction, and the letters announcing the meetings presumably would specify the details of the transaction. Governor Mills asked if the Board received such letters among the papers supporting a merger application.

Response was made that there was no present requirement that such letters be submitted, although they had been received in some cases, and the ensuing comments indicated a consensus that it would be desirable to arrange to obtain such letters in connection with future applications.

Secretary's Note: A letter carrying out the above suggestion was sent

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to the Presidents of the Federal Reserve Banks on June 11, 1962.
A copy is attached as Item No. 2.

Suburban Trust Company merger. There had been distributed a memorandum dated May 31, 1962, from the Division of Examinations in connection with the proposed merger of Suburban Trust Company, Hyattsville, Maryland, and Citizens Bank of Takoma Park, Takoma Park, Maryland. On April 26, 1962, the Board sent to the Federal Deposit Insurance Corporation a report on the competitive factors involved. After the merger application was filed, three Baltimore banks announced plans to expand into the Washington suburban area by merger, and filed applications to that end. Suburban Trust Company then submitted certain additional information to the Federal bank supervisory agencies. The additional information submitted to the Board consisted of a memorandum in which the Trust Company's President commented on the "invasion" of the Washington area by Baltimore banks, schedules showing the competitive situation when Baltimore and Washington, D. C., banks were taken into account, and numerous newspaper comments on the plans of the Baltimore banks. The Trust Company's President asked that, if the additional information justified sending a supplemental report to the Federal Deposit Insurance Corporation, such a report be sent. The Division memorandum concluded with the statement that it did not seem that a supplemental report on competitive factors need be furnished. In all cases, the deciding agency would be expected, in considering a merger application, to take into account other merger proposals subsequently announced.

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The view of the Division of Examinations was accepted.

Conference regarding California banking situation. Governor Shepardson observed that for some time the Board had had on its list of pending matters a possible joint consideration by the three Federal bank supervisory agencies of the banking situation in California. He asked if, under present circumstances, it should be considered that plans for such a joint study were dormant, in response to which the view was expressed that such was the case.

Accordingly, the Board's Secretary was instructed to drop that item from the list of pending matters.

Extension of time for Wells Fargo branch (Item No. 3). At its meeting on June 1, 1962, the Board considered a request from Wells Fargo Bank, San Francisco, California, for an extension of time within which to establish a branch in the Sacramento Redevelopment Area Shopping Center, Sacramento. The request was held in abeyance pending determination through the Federal Reserve Bank of San Francisco as to whether the establishment of temporary banking quarters would be feasible under the rules of the Redevelopment Authority.

Mr. Leavitt reported information he had obtained from Vice President Galvin of the Federal Reserve Bank of San Francisco regarding the status of demolition and rebuilding in the redevelopment area. It appeared that, although the regulations of the Redevelopment Authority were not such as to preclude the establishment of temporary banking

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facilities, relatively few buildings were completed and businesses in operation in the area. Therefore, it did not seem practical for Wells Fargo to establish a branch until improvement of the area had reached a point where branch operations would be economically feasible.

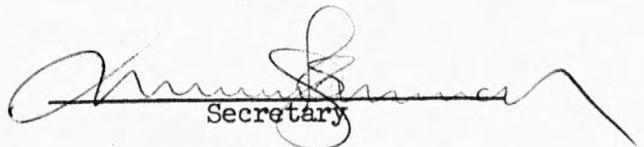
The letter to Wells Fargo Bank that had previously been circulated was thereupon approved unanimously. A copy is attached as Item No. 3.

Officer's salary at Chicago (Item No. 4). There had been circulated a draft of letter to the Federal Reserve Bank of Chicago approving the payment of salary to an officer at the rate fixed by the Bank's Board of Directors.

After a brief discussion, the letter was approved unanimously. A copy is attached as Item No. 4.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board letters to the Federal Reserve Bank of Minneapolis (attached Items 5 and 6) approving the appointment of Donald W. Palmer and Joseph R. Vogel as examiners.


Secretary

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

Item No. 1
6/5/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 5, 1962.

Board of Directors,
United California Bank,
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by United California Bank at 6412 Skyway, Paradise, Butte County, California, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



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Item No. 2
6/5/62

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

S-1835

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 11, 1962.



Dear Sir:

In connection with applications by banks to merge, consolidate, or purchase assets and assume liabilities, in some cases the Reserve Banks have forwarded to the Board circular letters sent by the banks concerned to their stockholders explaining the basis of the stock exchange or purchase price. It would be helpful if such letters could be obtained in all instances and forwarded to the Board, either at the time the application is filed or subsequently, but not later than the date on which the Reserve Bank's memorandum on the proposed transaction is forwarded to the Board.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman".

Merritt Sherman,
Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 3
6/5/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 5, 1962.



Board of Directors,
Wells Fargo Bank,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to December 23, 1963, the time within which Wells Fargo Bank may establish a branch in the Sacramento Redevelopment Area Shopping Center, Sacramento, California.

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. 4
6/5/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 5, 1962.



Mr. Charles J. Scanlon, President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Scanlon:

The Board of Governors approves the payment of salary to Mr. Ward J. Larson as Assistant Counsel and Assistant Secretary of the Federal Reserve Bank of Chicago at the rate of \$15,000 per annum for the period July 1 through December 31, 1962. This rate was fixed by your Board of Directors as reported in your letter of May 25, 1962.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 5
6/5/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



June 5, 1962.

CONFIDENTIAL (FR)

Mr. Frederick L. Deming, President,
Federal Reserve Bank of Minneapolis,
Minneapolis 2, Minnesota.

Dear Mr. Deming:

In accordance with the request contained in your letter of June 1, 1962, the Board approves the appointment of Donald W. Palmer, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Minneapolis, effective June 10, 1962.

It is noted that Mr. Palmer is indebted to the Dollar Savings Bank of the City of New York, New York, New York, a nonmember bank in Federal Reserve District No. 2. Accordingly, the Board's approval of Mr. Palmer's appointment is given with the understanding that he will not participate in any examination of that bank until his indebtedness has been liquidated.

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
6/5/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 5, 1962



Mr. Frederick L. Deming, President,
Federal Reserve Bank of Minneapolis,
Minneapolis 2, Minnesota.

Dear Mr. Deming:

In accordance with the request contained in your letter of June 1, 1962, the Board approves the appointment of Joseph R. Vogel, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Minneapolis, effective June 10, 1962.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.