

Minutes of the Board of Governors of the Federal Reserve System
on Monday, June 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. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank
Operations
Mr. Solomon, Director, Division of
Examinations
Mr. Johnson, Director, Division of
Personnel Administration
Mr. Shay, Assistant General Counsel
Mr. Furth, Adviser, Division of International
Finance
Mr. Conkling, Assistant Director, Division
of Bank Operations
Mr. Daniels, Assistant Director, Division
of Bank Operations
Mr. Kiley, Assistant Director, Division of
Bank Operations
Mr. Goodman, Assistant Director, Division
of Examinations
Mr. Smith, Assistant Director, Division of
Examinations
Mr. Sprecher, Assistant Director, Division
of Personnel Administration
Mr. Young, Senior Attorney, Legal Division
Mr. McClintock, Supervisory Review Examiner,
Division of Examinations
Mr. Achor, Review Examiner, Division of
Examinations
Mr. Harris, Assistant Review Examiner, Division
of Examinations

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Chase Manhattan applications (Items 1 and 2). There had been distributed to the Board, under date of June 8, 1962, a memorandum from the Division of Examinations relating to (1) an application of The Chase Manhattan Bank, New York, New York, for permission to increase its investment in Chase Manhattan Overseas Corporation, an "agreement" corporation, and for the latter to increase its investment in The Chase Manhattan Bank (South Africa) Ltd.; and (2) an application of The Chase Manhattan Bank and Chase Manhattan Overseas Corporation for permission to organize an Edge Act corporation to be known as Chase Manhattan Overseas Banking Corporation.

Following explanatory comments by Mr. Goodman, unanimous approval was given to the letters to The Chase Manhattan Bank and to Counsel for that bank and Chase Manhattan Overseas Corporation of which copies are attached as Items 1 and 2, respectively.

Messrs. Goodman and Furth then withdrew.

Application of Wilmington Trust Company. There had been distributed, under date of May 29, 1962, a memorandum from the Division of Examinations recommending approval of the application of Wilmington Trust Company, Wilmington, Delaware, for permission to purchase the assets and assume the liabilities of Townsend Trust Company, Townsend, Delaware, to continue the selling bank as a branch of the resulting bank, and to make an additional investment in bank premises.

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Following comments by Mr. Solomon based substantially on the memorandum that had been distributed, the merger application was approved unanimously, along with the requested additional investment in bank premises, with the understanding that the Legal Division would draft an order and statement for the Board's consideration.

Mr. Harris then withdrew.

Application of United California Bank. There had been distributed, under date of May 31, 1962, a memorandum from the Division of Examinations with further regard to the application of United California Bank, Los Angeles, California, for permission to merge with The First National Bank of Vista, Vista, California. This memorandum related particularly to the oral presentation heard by the Board on May 25, 1962. In the view of the Division, no information had been submitted at the oral presentation such as to justify a change in the Division's original recommendation, which was that the application be denied. (Prior to the oral presentation, the application had been given preliminary consideration at the meeting of the Board on May 7, 1962, at which time the members of the Board indicated that they would be inclined to concur in the adverse staff recommendation.)

In discussion of the matter, Governor Shepardson said that upon further study he found it difficult to reconcile the adverse staff recommendation in this case with the favorable staff recommendation in respect to the application of United California Bank to merge with

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The First National Bank of La Verne, La Verne, California. (The La Verne application was denied by the Board.) As he read the file, including the transcript of the oral presentation, there appeared clearly to be no question of competition between United California and the bank in Vista, which according to the oral presentation was situated in an expanding and changing area where there was need for an increased lending limit. The Vista bank was owned largely by members of one family, and the senior officer--a man about 80 years old--wished to retire from the banking business. Further, while the record was not specific, it might be presumed that the principal owner's son and daughter were not anxious to continue the operation of the bank.

Comments in response by Mr. Solomon were to the effect that a matter of judgment admittedly was involved in appraising the La Verne and Vista cases. While judgments could differ, it had appeared to the Division of Examinations that a stronger case of need for the services of a larger bank could be made in the La Verne case than in the Vista case.

Governor Shepardson then referred to testimony at the oral presentation claiming to show enlarged needs in the Vista area for farm credit and for credit incident to the expansion of industrial activities. If this was the situation, he found it difficult to develop justifiable reasons for denying a proposed merger that would help to meet those needs.

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Following comments by Mr. Solomon to the effect that neither of the banks concerned appeared to be aggressively interested in farm loans, Governor Robertson noted that there was already located in Vista a branch of a large California bank which apparently had found it difficult to compete with the local institution, thus tending to indicate that there was not such a substantial need for a larger lending limit as might have been inferred from statements made at the oral presentation.

After further discussion of the operations of the branch of the large bank already located in Vista, Governor Shepardson turned to the management situation of the Vista bank and suggested that a distinction could be drawn between the problem of such a bank in obtaining executive talent and the situation where a newly-formed bank was involved. At a bank such as First National of Vista, the problem seemed to him more difficult because the bank was closely held by a family group and the opportunity was not present to share in the ownership of the business.

The Chairman then called upon the members of the Board, beginning with Governor Mills, who stated that he would continue to feel, for reasons he had cited at the Board meeting on May 7, that the application should be rejected. He also expressed the view that in considering merger applications there was a tendency to place too much emphasis on lending capacity. A major responsibility of a bank was to

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act as a safe depository of funds for the community, and the Vista bank appeared to be performing that function well. It apparently could continue to do so, and without depriving the area of the range of credit services that might be sought by potential borrowers.

Governor Robertson concurred in the views expressed by Governor Mills and in the reasons cited by the Division of Examinations in support of its adverse recommendation. He added that in his view the staff must in every case make its recommendation not in the light of views that the staff may have held on previous cases but in the light of decisions that had been made by the Board.

Governor Shepardson stated that he would favor approval of the application for the reasons he had expressed earlier during this meeting.

Governor Balderston expressed himself as inclined toward disapproval.

Chairman Martin indicated that he agreed with Governor Shepardson. He was not convinced that the Vista bank should be forced to stay in business against the desire of its owners merely for sake of maintaining a unit bank. He did not feel that this was the right way to approach the question.

Question was raised whether any advantage would be seen in deferring a final decision on the matter until additional members of the Board could be present, but it was decided to proceed according to

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the votes of the members present at this meeting. Accordingly, the application was denied, Governors Mills, Robertson, and Balderston voting to deny and Chairman Martin and Governor Shepardson voting to approve. It was understood that the Legal Division would draft for the Board's consideration an order and statements reflecting the action taken by the Board.

Messrs. McClintock and Achor then withdrew from the meeting.

Proposal to establish a branch in Milwaukee. Pursuant to the understanding at the meeting on June 1, 1962, the Board had agreed to meet tomorrow with Congressman Reuss and a Milwaukee delegation, at the Congressman's request, to hear views in support of the establishment of a branch of the Federal Reserve Bank of Chicago in Milwaukee. In preparation for that meeting, there had been distributed a memorandum from Mr. Farrell dated June 7, 1962, summarizing information contained in the study filed by the Chicago Reserve Bank under date of March 1954 concerning decentralization in the Seventh Reserve District. The memorandum also referred to a report dated April 6, 1955, from Governor Balderston and former Governor Szymczak that related mainly to the question whether the Chicago Reserve Bank should establish a branch at Des Moines, Iowa, but recognized the relationship of that issue to a larger question of policy having to do with whether the number of Reserve Bank branches should be increased. Attachments to the memorandum presented certain historical and current data that it

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was thought might be of interest to the Board. There had also been distributed copies of a file memorandum prepared by President Scanlon of the Chicago Reserve Bank under date of June 5, 1962, regarding telephone calls that he had received from certain Milwaukee bankers following a meeting of the Milwaukee Clearing House on that day.

In discussion of the matter, Mr. Cardon noted that Congressman Reuss had raised the question whether a reporter from the Milwaukee Journal might be admitted to the meeting tomorrow.

The question presented by Congressman Reuss was discussed at some length in the light of whether the meeting should be changed to the form of a "public hearing," with some effort made to notify other representatives of the press. Against this possibility, it was noted that parties who might be opposed to the establishment of a branch in Milwaukee would have no opportunity to present themselves and offer arguments. Further, parties from other sections of the country who might be generally interested in the subject of Federal Reserve Bank branches would be deprived of ample notice.

Accordingly, at the conclusion of the discussion it was agreed that the meeting should be held in the Board Room on the basis originally contemplated, with the understanding, however, that Congressman Reuss would be advised that there would be no objection to his arranging to bring with him the reporter from the Milwaukee Journal if he so desired. It was also understood that a stenographic transcript of the meeting would be prepared.

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Messrs. Molony, Fauver, Cardon, Shay, Conkling, Daniels, and Young then withdrew.

Reports of examination (Cleveland and Minneapolis). There had been circulated to the members of the Board reports on the examinations made by the Board's examining staff of the Federal Reserve Banks of Cleveland and Minneapolis as of January 3 and March 2, 1962, respectively.

At the request of the Board, Mr. Smith commented on the respective examinations, and it was agreed that there were no matters appearing to warrant action on the part of the Board at this time.

Messrs. Farrell, Johnson, Kiley, Smith, and Sprecher then withdrew.

Examination reports of national banks. By letter dated April 30, 1962, the Comptroller of the Currency advised of a new schedule of increased charges for providing copies of reports of examination of national and District of Columbia banks to Federal Reserve Banks. The letter indicated that the new schedule would become effective June 1, 1962, but the Comptroller subsequently agreed with Chairman Martin to defer the effective date until July 1, 1962. By letter dated May 11, 1962, the Board requested the views of the Reserve Banks, and a summary of the comments received from the Banks was contained in a memorandum from the Division of Examinations dated May 28, 1962, which had been distributed.

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At the Board's request, Mr. Solomon discussed the Reserve Bank views, which he summarized as being generally to the effect that, although the proposed increased charges for copies of examination reports were regarded as unreasonable, the Reserve Banks found such reports useful and felt there might be little alternative to paying the stated charges. As to a suggestion that the reports might be borrowed from the Comptroller and reproduced by the Reserve Banks, Mr. Solomon expressed doubt that such a procedure would be agreeable to the Comptroller. Mr. Solomon also noted that some of the Banks had mentioned the possibility of purchasing only one examination report each year. However, other Reserve Banks had not mentioned this possibility, and their views therefore were not known. For this and other reasons, he felt that something might be said for discussion of the matter by the Board with the Reserve Bank Presidents.

There being concurrence with this view, it was agreed that the matter should be discussed with the Reserve Bank Presidents at the time of the next meeting of the Presidents' Conference, scheduled to be held June 18-19, 1962.

The members of the staff then withdrew and the Board went into executive session.

Services of Professor McGill. Following the meeting, the Secretary was informed that during the executive session the Board authorized Governor Balderston to arrange for a contract for the services of Professor Dan McGill of the University of Pennsylvania for the purpose

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of reviewing certain aspects of the Retirement System of the Federal Reserve Banks, such contract to provide for payment to Professor McGill at the rate of \$200 per day plus necessary expenses incurred by him, including but not limited to roundtrip transportation from Tennessee to Washington, D. C., it being understood that the contract would cover such services as Professor McGill might be called upon to perform between now and the end of the current calendar year.

Travel by Mr. Hersey. The Secretary was informed later by Governor Shepardson that during the executive session the Board authorized Arthur Hersey, Adviser, Division of International Finance, to travel to Paris, France, to attend, as a consultant to members of the U. S. delegation, the meeting of Working Party 3 of the Economic Policy Committee of the Organization for Economic Cooperation and Development to be held July 17-18, 1962. Mr. Hersey was also authorized to pay brief visits to the central banks in England, Germany, and the Netherlands following the Paris meeting, the duration of his entire trip to be approximately from July 15 to August 1, 1962.

The meeting then adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board increases in the basic annual salaries of the following persons on the Board's staff, effective the dates indicated:

Yves Maroni, Economist, Division of International Finance, from \$12,730 to \$13,250 per annum, effective July 8, 1962.

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Karen Marie Ditta, Stenographer, Division of Examinations, from
\$3,970 to \$4,145 per annum, effective June 24, 1962.


Secretary

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

Item No. 1
6/11/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 11, 1962



The Chase Manhattan Bank,
One Chase Manhattan Plaza,
New York 15, New York.

Gentlemen:

In accordance with your request and on the basis of the information furnished in your letter of May 17, 1962, as amended by your letter of June 5, 1962, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants permission to The Chase Manhattan Bank, New York, New York, pursuant to the provisions of Sections 9 and 25 of the Federal Reserve Act, to increase from \$15,950,000 to \$16,745,000 the amount it may invest in Chase Manhattan Overseas Corporation ("CMOC") or Chase Manhattan Overseas Banking Corporation ("CMOBC"), which is being organized to acquire the assets and assume the liabilities of CMOC.

The Board of Governors also grants permission for CMOC, or CMOBC, as the case may be, to increase its investment in The Chase Manhattan Bank (South Africa) Ltd., Johannesburg, Republic of South Africa ("South African Bank") to an amount not to exceed US\$2,545,000; provided that CMOC, or CMOBC as the case may be, shall not carry on its books the shares of the South African Bank at a net amount in excess of the book capital accounts of the South African Bank, after giving effect to the elimination of all known losses.

In your letter of June 5, 1962, you have submitted one executed copy each of Forms F.R. 150, 151, and 152 for the organization of a corporation under Section 25(a) of the Federal Reserve Act to be known as "Chase Manhattan Overseas Banking Corporation" for the purpose of engaging in international or foreign banking. In a letter of this date, Mr. Roy C. Haberkern, Jr. has been informed that the Board of Governors has approved the Articles of Association and the Organization Certificate of CMOBC and has been furnished a preliminary permit authorizing CMOBC to exercise such of the powers conferred by Section 25(a) of the Federal Reserve Act as are incidental and preliminary to its organization.

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The Board's approval of the Articles of Association and the Organization Certificate of CMOBC and the issuance of the preliminary permit have been made on the basis of information furnished in your letter of June 5, 1962, and the representations therein. In brief, it is understood that CMOBC, through a corporate reorganization which will involve no recognition of taxable gains or losses, will acquire all of the assets of CMOC in exchange solely for the stock of CMOBC and the assumption of the liabilities of CMOC; that CMOC will then be liquidated; and that the shares of CMOBC will be distributed in liquidation to The Chase Manhattan Bank, the sole shareholder of CMOC.

In letters dated January 5, 1959, October 5, 1959, December 16, 1960, March 15, 1961, February 14, 1962, May 2, 1962, and in this letter, the Board has granted permission for The Chase Manhattan Bank to make various investments in CMOC and for CMOC to make investments in The Chase Manhattan Bank (South Africa) Ltd., ("South African Bank"), Johannesburg, Republic of South Africa, and The Chase Manhattan Trust Corporation Limited ("Nassau"), Nassau, Bahamas; and directly, or indirectly through intermediary corporations, in Banco Hipotecario Lar Brasileiro, S. A. ("Banco Lar"), Rio de Janeiro, Brazil, and Banco Mercantil y Agricola ("Banco Mercantil"), Caracas, Venezuela.

In accordance with your request, the Board of Governors grants consent for CMOC to acquire, hold, and distribute the stock of CMOBC in the transaction described in your letter of June 5, 1962. The Board also grants permission for CMOBC to acquire and hold the stock of South African Bank, Nassau, and Banco Lar now held by CMOC (directly or indirectly through a subsidiary company or companies) and to purchase and hold, directly or indirectly, the stock of Banco Mercantil which CMOC is now authorized to acquire and hold. Since CMOBC may be organized prior to the time that all authorized investments are made by The Chase Manhattan Bank in CMOC and by CMOC in South African Bank, Nassau, Banco Lar, and Banco Mercantil, the authorizations contained in the letters referred to in the above paragraph shall be deemed to authorize The Chase Manhattan Bank to make investments in CMOBC or CMOC to the same extent that such investments were authorized to be made in CMOC, and that CMOBC or CMOC, as the case may be, shall be deemed to be authorized to make investments to the same extent that CMOC has been authorized.

Section 211.10(a) of Regulation K, which relates to "Liabilities of one borrower." provides, in part:

The Chase Manhattan Bank

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". . . For the purposes of this paragraph, the cost to a Corporation of any stock owned by it shall, unless otherwise specified by the Board of Governors in a particular case, be treated as if it were a liability of the issuer of the stock for money borrowed. . ."

Subject to continuing observation and review, the Board suspends, until further notice, the provisions of the above quoted portion of Section 211.10(a) so far as they relate to the stock investment by CMOBC, directly or indirectly, in South African Bank, Banco Lar, and Banco Mercantil. So long as the activities of Brasilair - Administracao e Participacoes Ltda. ("Brasilair") are limited solely to holding the stock of Banco Lar as authorized herein, any loans by CMOBC to Brasilair will be considered as stock investment by CMOBC in Banco Lar.

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
6/11/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 11, 1962

Mr. Roy C. Haberkern, Jr.,
Milbank, Tweed, Hope & Hadley,
One Chase Manhattan Plaza,
New York 15, New York.

Dear Mr. Haberkern:

The Board of Governors has approved the Organization Certificate, dated June 5, 1962, and the Articles of Association as amended by the incorporators' letter of June 7, 1962, of Chase Manhattan Overseas Banking Corporation, and there is enclosed a preliminary permit authorizing that Corporation to exercise such of the powers conferred by Section 25(a) of the Federal Reserve Act as are incidental and preliminary to its organization. The Corporation may not exercise any of the other powers conferred by Section 25(a) until it has received a final permit from the Board authorizing it generally to commence business. The steps which must be taken prior to issuance of a final permit are enumerated in Section 211.3(c) of the Board's Regulation K.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Enclosure.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

June 11, 1962

Preliminary Permit

IT IS HEREBY CERTIFIED that the Board of Governors of the Federal Reserve System, pursuant to authority vested in it by Section 25(a) of the Federal Reserve Act, as amended, has this day approved the Organization Certificate, dated June 5, 1962, and the Articles of Association as amended by the incorporators' letter of June 7, 1962, of CHASE MANHATTAN OVERSEAS BANKING CORPORATION duly filed with said Board of Governors, and that CHASE MANHATTAN OVERSEAS BANKING CORPORATION is authorized to exercise such of the powers conferred upon it by said Section 25(a) as are incidental and preliminary to its organization pending the issuance by the Board of Governors of the Federal Reserve System of a final permit generally to commence business in accordance with the provisions of the Board of Governors of the Federal Reserve System issued pursuant thereto.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By (Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

(SEAL)