

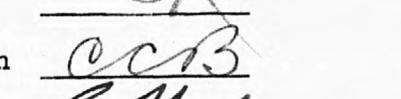
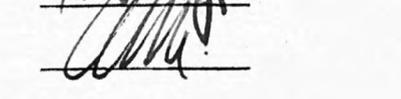
Minutes for July 2, 1962

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 Monday, July 2, 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 1/
 Mr. Shepardson
 Mr. Mitchell

Mr. Sherman, Secretary
 Miss Carmichael, Assistant Secretary
 Mr. Fauver, Assistant to the Board
 Mr. Hackley, General Counsel
 Mr. Johnson, Director, Division of
 Personnel Administration
 Mr. Leavitt, Assistant Director, Division
 of Examinations

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 First Bank and Trust Company, Fords, New Jersey, approving the establishment of a branch at 1379 St. Georges Avenue, Avenel.	1
Letter to The Central Trust Company, Cincinnati, Ohio, approving an extension of time to establish a branch in the Eastern Hills Plaza Shopping Center on Paxton Avenue.	2
Letter to Ann Arbor Bank, Ann Arbor, Michigan, approving the establishment of a branch in the vicinity of the intersection of Plymouth Road and Huron Parkway.	3
Letter to Spur Security Bank, Spur, Texas, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	4

1/ Withdrew from meeting at point indicated in minutes.

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Item No.

Letter to the Federal Deposit Insurance Corporation regarding the application of Spur Security Bank, Spur, Texas, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.

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Report on competitive factors (Uniontown-Meyersdale, Pennsylvania).

There had been distributed a draft of report, dated June 28, 1962, to the Comptroller of the Currency on the competitive factors involved in the proposed purchase of assets and assumption of liabilities of The Second National Bank of Meyersdale, Meyersdale, Pennsylvania, by Gallatin National Bank, Uniontown, Uniontown, Pennsylvania.

There being no objection, the report was approved unanimously for transmittal to the Comptroller. The conclusion in the report read as follows:

The proposed purchase of assets and assumption of liabilities of The Second National Bank of Meyersdale, Meyersdale, Pennsylvania, by Gallatin National Bank, Uniontown, Uniontown, Pennsylvania, would not alter the competitive picture in the purchasing bank's service area. However, the remaining independent bank in Meyersdale would be in direct competition with a branch of an institution almost 16 times its size instead of a banking office about the same size. Other small banks in the area surrounding Meyersdale would also be subject to increased competition.

Report on competitive factors (Baltimore-Rockville, Maryland).

There had been distributed a draft of report, dated June 26, 1962, to the Comptroller of the Currency on the competitive factors involved in a proposed merger of The Montgomery County National Bank of Rockville, Rockville, Maryland, into Maryland National Bank, Baltimore, Maryland.

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Governor Robertson suggested that the conclusion of the report be changed so that, as was brought out by statements in the body of the report, it would indicate that there was a possibility that consummation of the merger might have some adverse effects on other banks operating in the service areas of the resulting bank.

Governor Mills said that the proposed merger might have adverse effects on other banks, but there could be larger changes that would alter the entire prospects of banking in the area. The proposed merger was part of a trend in the State of Maryland that was on the doorsteps of the City of Washington and which was concentrating banking resources in a few large banks. It seemed to him difficult to take positive opposition to a development that might be a natural one in the metropolitan Washington area. At the present time banks in Washington were prevented by statute from going outside of the boundaries of the District of Columbia. If the Washington banks should become more aggressive they might make an effort to have the present statute amended so that they could compete with the whole trade territory, Baltimore and Washington being almost a single metropolitan area. He believed that the Board should avoid being too dogmatically opposed to this type of merger.

Governor Mitchell commented that if the Baltimore bank could not merge as proposed, it would likely apply for the establishment of a de novo branch in Rockville since it seemed determined to widen its service area.

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Governor Mills responded that another large suburban bank-- Suburban Trust Company--was well established in the Maryland area near the District of Columbia, including authority to open a branch in Rockville. He thought it doubtful that a de novo branch of a Baltimore bank could do any better or even as well as a branch acquired by merger in maintaining effective competition among banks already in the area.

After changes in the conclusion were agreed upon, the report was approved unanimously for transmittal to the Comptroller in a form in which the conclusion read as follows:

There is no evidence that any competition exists between the two banks involved in this proposal. The consummation of the merger might have adverse effects on other banks operating in the service areas of the resulting institution. The merger would further the trend in Maryland toward concentration of banking resources in a few large banks.

Aggregate compensation of Board employees. A memorandum from Mr. Johnson, dated June 11, 1962, which had been circulated, recommended that the Board's policy with respect to aggregate employee compensation (basic pay plus night-pay differential, overtime pay, and compensation for holiday work) be revised to conform to present levels for Civil Service positions.

Under current rules, Board employees up to and through Grade 9 were entitled to receive overtime pay provided their aggregate compensation per biweekly pay period did not exceed the rate of \$10,000 per annum. The

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recommended revision would increase the maximum rate to \$15,030 per annum (top of Grade 15), which would amount to \$578.40 per biweekly pay period, but it would not alter the existing rule that overtime compensation is not paid to any employee above Grade 9.

Mr. Johnson commented that until recently no problem had arisen because of the \$10,000 maximum rate. However, not long ago an employee in the Board's Division of Administrative Services had been required to accept compensatory leave in lieu of overtime pay for the amount earned in excess of the maximum rate. A question had also been raised recently in the Division of Bank Operations in connection with the preparation of a special banking statistical report that required a considerable amount of overtime. It was Mr. Johnson's view that the aggregate overtime compensation limitation for Board employees should be the same as that of other Government employees.

There ensued a general discussion during which members of the Board asked a number of questions regarding the proposal and indicated the need for adequate policing of any overtime pay arrangement.

At the end of the discussion the recommendation to revise the Board's aggregate compensation rate was approved unanimously.

At this point all members of the staff except Messrs. Sherman and Hackley withdrew from the meeting.*

* The members of the Board who were present at this point were Chairman Martin and Governors Balderston, Mills, Robertson, Shepardson, and Mitchell.

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Continental Bank and Trust Company. Reference was made to the telephone call that had been made to Governor Balderston on Friday, June 29, by Mr. Kenneth J. Sullivan, President of The Continental Bank and Trust Company, Salt Lake City, Utah, asking for an opportunity to meet with the members of the Board at 11:00 a.m. this morning, and in which Mr. Sullivan had expressed the hope that Governor Robertson would be present for such a meeting.

Governor Robertson stated that he had reached a conclusion that he should stay out of the meeting with Mr. Sullivan. He asked, therefore, that Chairman Martin tell Mr. Sullivan that he was grateful for the invitation that he be present, but that he did not feel justified in participating in discussions of the Board's proceeding against Continental Bank at this stage having remained out of the case up to the present time.

Governor Robertson then withdrew from the meeting.

Mr. Hackley stated that this meeting with Mr. Sullivan was of crucial importance in the Board's proceeding against Continental Bank. He was assuming that, as far as the meeting today was concerned, the Board would simply listen to what Mr. Sullivan might have to say. Mr. Hackley said he also was assuming that the Board would not in any case consider a compromise of the proceeding, although it might wish to consider an alternate plan for accomplishing the purposes of the proceeding.

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With reference to the present posture of the case, Mr. Hackley noted that a hearing had been ordered by the Board to be held beginning on July 23, 1962, at which the bank would have an opportunity to show cause why its membership in the Federal Reserve System should not be forfeited for having failed to comply with the Board's order of July 18, 1960, requiring the bank to supply \$1,500,000 additional capital by sale of common stock for cash. Within the past few weeks Continental Bank had filed three separate motions with the Board in connection with this proceeding. The first two of these were filed on May 31, a Motion to Produce and another motion designated a Demand for Particulars. Subsequently, on June 25, 1962, Continental Bank filed a Motion to Dismiss and Demand for a Final Order. This latter motion was of vital importance in that, in anticipation of the Board's denial of the Motion to Dismiss the proceeding, it urged that the Board by stipulation agree that the bank had failed and refused to comply with the terms of the Board's order of July 18, 1960, and that, accordingly, the Board close the hearing now ordered to begin on July 23 and issue the Board's final order requiring Continental to surrender its stock in the Federal Reserve Bank of San Francisco and to forfeit all rights and privileges of membership in the Federal Reserve System within such reasonable time as to allow Continental to secure judicial review of such final order. In support of the latter motion, the bank urged that there was no purpose in a further hearing to support the imposition of the statutory sanction of expulsion from the

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Federal Reserve System for failure to comply with the Board's 1960 order. Board Counsel would have an opportunity to file comments on this motion, Mr. Hackley said, and in view of the circumstances, he would strongly urge that the Board also grant Continental Bank Counsel 10 days following receipt of Board Counsel's comments within which to file reply comments to those submitted by Board Counsel. The bank did not have a right to file such reply comments to Board Counsel's memorandum, Mr. Hackley noted, but in this instance, he believed that the Board should grant to the bank's Counsel permission to file such further comments as it might desire. This would take the matter up to within a few days of the date for the show cause hearing ordered to commence on July 23, and it would undoubtedly be necessary for the Board to extend the date for commencement of the show cause hearing, since his analysis of and recommendations on the three motions referred to would have to come before the Board at some time subsequent to receipt of reply comments by Continental Bank Counsel.

Mr. Hackley then referred to the meeting with Mr. Sullivan to be held at 11:00 a.m. this morning. Continental Bank Counsel had conceded that the bank had failed to comply with the Board's order of July 18, 1960, and it now urged that the Board close the hearing and issue its final order requiring the bank to forfeit membership. Mr. Hackley stated that if the Board were to do this, it would be taking an action inconsistent with the position the Board has taken in the past. The Board has consistently taken the position that even if the bank failed

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to comply with the 1960 order for increasing capital in the manner prescribed, such failure would not necessarily mean that the Board would terminate the bank's membership. Mr. Hackley then read the applicable provisions of the law, noting that it was within the Board's power to revoke membership but that this was not necessarily an action that would be taken. In other words, Mr. Hackley said, it was still within the Board's power to exercise its authority under the law in some manner other than by revoking membership for the bank. For this reason, he felt that it would be inadvisable for the Board to revoke the bank's membership without first considering its present capital position. The Board might be considered as engaging in harassment and arbitrary action if it should go forward with the hearing now scheduled to begin on July 23 and, despite an offer that might be made by Continental Bank in good faith for an alternate means of complying with the 1960 order, issue another order terminating the bank's membership.

Mr. Hackley stated that he did not believe that consideration of an alternate means of complying with the 1960 order, and thereafter acceptance of a reasonable settlement that would provide the bank with adequate capital, would in any way constitute a backing down on the part of the Board. On the contrary, the Board's position would be vindicated if, after considering the current capital position of the bank and information derived from a show cause hearing, a proposal for an alternate means of arriving at the objective of the proceeding were to result in

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its issuing another order that dismissed the 1960 order and set up a new condition. To sum up, Mr. Hackley said, if the Board were to refuse to consider any reasonable settlement proposal by Continental Bank (not a compromise, but a reasonable substitute means for the provision of adequate capital) it would not only weaken the Board's position in the future, but if the Board should accept such a proposal and implement it by a new order directing the bank to carry out such proposal, such a procedure would accomplish the two and the only two objectives of the entire proceeding--namely, to require Continental Bank to maintain adequate capital and to meet the challenge to the Board's legal position as to authority to require the maintenance of adequate capital.

Mr. Hackley then referred to the distinction between the significance of the capital position of the bank when the Board started the present proceeding and issued its 1960 order, and the present capital position that had been attained. The bank has violated the statute: that had already taken place by its admitted failure to comply with the 1960 order issued by the Board. However, the current capital position of the bank is relative to the question whether the Board now would exercise the discretion that it has under the law to apply the sanction of termination of membership.

As to the meeting with Mr. Sullivan this morning, Mr. Hackley said that in view of the disciplinary nature of the proceeding, the staff of the Board had been scrupulous in maintaining a separation of

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the adjudicatory function from the disciplinary function. While he doubted that it would be a violation of that separation for him or for any other member of the staff to be present to listen to what Mr. Sullivan had to say, he would suggest that it might be preferable if neither he nor others of the staff were to be present at today's meeting with Mr. Sullivan in order to avoid raising that question. If Mr. Sullivan were to submit a proposal for an alternate means of settling the case, that could be done in writing and the staff could then analyze the proposal and submit to the Board its comments. In response to a question from Governor Shepardson as to whether his statement was intended to apply to having the Board's Secretary present at the meeting with Mr. Sullivan, Mr. Hackley stated that he did not so intend his statement, that, on the contrary, he felt that the Secretary should be present and make a sufficient record of Mr. Sullivan's discussion with the Board.

Governor Mills stated that he felt the Board should not be deprived of Mr. Hackley's presence at the meeting with Mr. Sullivan, and Governor Balderston expressed the same feeling. The latter noted that Mr. Hackley has not been a part of the "prosecuting" side of the staff, and he inquired why Mr. Hackley felt that he should not be present.

Mr. Hackley stated that if the meeting with Mr. Sullivan were in any way to take on the character of a negotiation, then he thought it would be advisable for him not to be present. If it was merely a matter of listening to what Mr. Sullivan had to say, then he could see no objection to his being present. However, since Mr. Sullivan presumably

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would be talking about the capital position of the bank, it might be preferable and more appropriate to have a representative from the Division of Examinations, such as Mr. Leavitt, present.

Chairman Martin stated that he thought it appropriate to have Mr. Leavitt present for that reason, and there was no indication of disagreement. Governor Balderston then read notes of his telephone conversation with Mr. Sullivan on Friday, June 29, at the time Mr. Sullivan called to arrange for the meeting.

Governor Shepardson stated that he still was not clear why Mr. Hackley's presence and participation in the meeting with Mr. Sullivan would in any way compromise the Board's position. He noted that Mr. Hackley was General Counsel to the Board, that he was not part of the staff that had been carrying forward the prosecution of the case. He could not see how the Board's position could be compromised if Counsel, who would be advising the Board on the adjudicatory side, were present at this meeting.

Mr. Hackley said that he doubted that his presence would compromise the Board's position. He was only thinking that in view of the history of this case it might be desirable to avoid any possible question in this connection.

Governor Mills stated that he would be more concerned about having representatives of the Division of Examinations present at the meeting,

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since that was the Division from which information regarding the bank's condition had been supplied in the proceeding against Continental.

Mr. Hackley noted that the suggestion for Mr. Leavitt to be present would not conflict with this: Mr. Solomon as Director of the Division and Mr. Leavitt as Assistant Director of the Division had not participated in the handling of matters relating to the prosecution of the case thus far. Therefore, it would be appropriate for them to participate in the adjudicatory function for the Board or to listen this morning to what Mr. Sullivan had to say, assuming of course that they would not take part in a negotiation for settlement.

Governor Balderston stated that he would feel more comfortable if both Mr. Hackley and Mr. Leavitt were present at the meeting with Mr. Sullivan, and Chairman Martin indicated a similar view.

Governor Mitchell suggested that it might be preferable if a minority of the Board were present at the meeting with Mr. Sullivan since it seemed clear that the latter was present to negotiate a settlement of the case.

Chairman Martin said that he did not think the Board should negotiate or commit itself in any event at this meeting with Mr. Sullivan: it would be a mistake to respond in a substantive sense to any suggestions that Mr. Sullivan might have to make.

Mr. Hackley stated that he was sure Mr. Sullivan did not expect the Board to respond at this meeting. President Swan of the San Francisco Reserve Bank had informed him that, in an earlier conversation with Mr.

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Sullivan, the latter had indicated that he simply wanted to come down to meet with the Board to explore the possibility of arriving at some settlement of the case and that he did not expect any answer at this time.

At this point Mr. Leavitt, Assistant Director of the Division of Examinations, entered the room.

Governor Shepardson then asked for clarification of Mr. Hackley's comment that it would now be appropriate for the Board to consider the current capital position of Continental, whereas in 1960 when it issued its order for an increase in capital great emphasis had been placed on the capital position of the bank at the time the proceeding had started in 1956.

Mr. Hackley said that the current capital position of the bank was no longer relative in determining whether Continental Bank had violated the Board's order of July 18, 1960, or the statute. The bank conceded that it had failed to comply with the Board's order, and thus with the law if the Board had the legal authority to issue such an order. However, the question of the application of the sanctions of the law--termination of the bank's membership in the Federal Reserve System--was a matter entirely within the Board's discretion. It was in this connection that the Board not only could, but should, consider the current capital position of the bank as a relevant factor.

Chairman Martin then inquired of Mr. Leavitt whether he had any comments to make prior to the meeting with Mr. Sullivan, and Mr. Leavitt responded that he was having developed in the Division of Examinations

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a memorandum analyzing the condition of Continental Bank on the basis of the latest examination report made as of January 8, 1962. He expected that such memorandum would be distributed to the members of the Board shortly. He understood that the asset condition of the bank had improved somewhat since the preceding examination but that there still existed a capital deficiency.

At this point, at 10:50 a.m., Mr. Kenneth J. Sullivan, President, The Continental Bank and Trust Company, Salt Lake City, Utah, entered the room.

Note: Present: Chairman Martin
Governor Balderston
Governor Mills
Governor Shepardson
Governor Mitchell

Mr. Sherman, Secretary
Mr. Hackley, General Counsel
Mr. Leavitt, Assistant Director,
Division of Examinations

Mr. Sullivan, President, The Continental
Bank and Trust Company

Chairman Martin stated that Governor Robertson who was present in the Board's building today had expressed appreciation for Mr. Sullivan's invitation that he be present at this meeting but that he (Governor Robertson) had decided that in view of the fact that he had not participated in the proceeding thus far he would rather not participate in today's meeting.

Mr. Sullivan responded that he could appreciate that feeling. However, he wanted to say at the outset that he wanted Governor Robertson

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and all of the rest of the members of the Board to know that, while there had undoubtedly been personal prejudices and feelings in this case in the past, there was none of that now. There was no personal prejudice on his part. Mr. Sullivan stated that the Continental Bank knew that the members of the Board had a job to do. He hoped to have an opportunity to present his personal feelings to Governor Robertson later today. There was no prejudice on his part now.

Mr. Sullivan went on to say that he appreciated the opportunity for meeting with the members of the Board. He wondered whether it would be possible if the meeting could be an "off the record" discussion.

In response to a request from Chairman Martin, Mr. Hackley stated that there was no question but that this meeting was not part of the record in the proceeding against Continental Bank.

Mr. Sullivan stated that he wished to assure the Board that he would never use anything that he might say or that might be said in this meeting in connection with the proceeding. He had no objection to a record being made of what he had to say to the Board, but he wished to have it understood that whatever he might say would not be made a part of the proceeding as far as Continental Bank and Trust Company was concerned.

Mr. Sullivan went on to say that he came here today against the advice of his attorneys and some of the other officers of the bank. Furthermore, the suggestion had been made that if he would come he should bring someone with him. He had decided that he would come and that he

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would come alone; he could not believe that this country had come to a point where he could not come to a meeting with the members of the Board without losing his legal rights. He felt that he could express himself better if he did not have his attorneys or other bank representatives present. It was on that basis that he had asked for this meeting with the Board.

Mr. Sullivan noted that the bank had gotten involved in this litigation because of its attitude. He would be a terrible ingrate if he criticized Mr. Walter Cosgriff because the latter had been very good to him. Mr. Cosgriff had believed that he was right and he wanted to make an issue of the matter of the Board's proceeding against his bank. He believed he would get a settlement in the courts sustaining his position. However, the attitude that had been presented by the bank to the Federal Reserve Bank of San Francisco, to the Board, and elsewhere had been such, Mr. Sullivan said, that the Board had been forced to take the course it had taken. For that he (Mr. Sullivan) took full responsibility. Coming to today's situation, frankly he believed that he was in the position where, if the bank were to win the case in the courts, he could win the battle and still lose the war. Mr. Sullivan said that his was a Catholic bank operating in a Mormon community. He still believed that the bank could win the case in the courts and lose the war in an area where it was operating. For example, if it were to ask for approval of a branch and if the attitude of the Federal Reserve people was such that anything the

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bank might ask would be refused, the bank would be "a dead duck." The bank was going to have to work with the Federal Reserve people. It had to be a member of the Federal Reserve System and it had to live with the supervisory authorities. Noting that he had been in the banking business most of his life, that he was now 50 years of age and had 15 years before retirement, he judged that if the case was pursued through the courts it probably would be five or six years before a final decision. This was why he wanted to explore whether there was any possibility of a settlement without pursuing the law suit.

Mr. Sullivan said that he had brought with him one sheet only -- a tabulation showing certain information regarding Continental Bank as of March 26, 1962, compared with October 16, 1956.

Copies of the sheet referred to by Mr. Sullivan were then distributed, and a copy is attached hereto. (See Item No. 6) Mr. Sullivan pointed out in detail the basis upon which the sheet had been prepared, stressing that the figures as of the two dates were consistent with each other. He did not wish to mislead the Board: some of the figures might not have been prepared in the same manner that Federal Reserve people would prepare them, but as between the two dates there was strict consistency. For example, he had not included Federal Funds sold as "loans." Mr. Sullivan stressed that he wished to avoid controversy over the figures. Some of the ratios had been prepared on the basis that he felt was representative of the bank's condition and departed in certain

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ways from the Federal Reserve's ABC formula, but he wished to explain exactly what had been done on this sheet to present to the Board the current position of the bank. Asset-wise, he believed that the condition of the bank between October 1956 and March 1962 had improved greatly. He also stated that the Federal Reserve had had the best of its organization come into the Continental Bank in October 1956 and examine it then and since. Federal Reserve representatives knew as much about the bank as the officers of the bank did. They had pointed out in October 1956 some very real weaknesses in the operation of the bank. These, Mr. Sullivan said, had been corrected to an extent of 90 per cent or more of the criticisms made, in his opinion. He cited as one of the criticisms the fact that in their installment loan department overhead had been built up unjustifiably and that as a result of the suggestions made by the examiners, it had been reduced substantially and brought under control. He believed that the Federal Reserve examiners would agree that the bank was now a good bank and a sound bank. In his opinion, at the time of the Board's request in 1956 that the bank add \$1,500,000 of capital funds, the bank was in need of additional capital. At that time its adjusted capital amounted to \$3,237,000, and since then it had increased to \$5,389,000. The Board's 1956 request for \$1,500,000 additional capital was probably the minimum that it felt was necessary at that time. If the bank had then complied with the request and put up the capital and had gotten along with the supervisory authorities,

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the bank, in his opinion, would now have a present capital position within reason. Although the 1956 request was for \$1,500,000 additional capital, the Federal Reserve examiners had found in 1956 a capital deficiency of \$2,200,000. If it were assumed that that was correct--and Mr. Sullivan said he was not here to argue the point--he believed that the Federal Reserve would agree that the bank had gained substantially capital-wise in that period, particularly when it considered the fact that the bank had not grown deposit-wise in recent years. Mr. Sullivan noted that, considering the general growth in the Salt Lake City area, had the bank been able to work with the supervisory agencies, it might have been today a \$90,000,000 bank rather than a \$77,000,000 bank. Capital needs were, of course, related to deposit liabilities. As far as the impact of the proceeding was concerned, Mr. Sullivan said he did not believe that it had hurt the bank's relationships with the public generally, but the bank had not been able to meet its competition in terms of ability to serve the community--for example, by means of opening additional branches. He noted that one additional branch office had been approved by the State of Utah. The bank would need some additional branches in order to grow in the community and give the service needed and maintain the correspondent balances that were vital to its success. He did not want a great many branches but several would be necessary in the next few years. He did not wish to put a branch on every corner but he did want to give service and still make money on it. The bank had not had the growth that it

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should have had and as long as a controversy with the supervisory authorities continued and as long as the bank failed to get some additional branch offices it would not be able to correct that. It would simply die on the vine.

Mr. Sullivan explained in some detail the computation of capital ratios that appeared on the sheet that he had distributed, mentioning three or four main points of departure from the Federal Reserve's ABC formula for analyzing bank capital as follows:

- a) Federal Funds were not shown as loans.
- b) Instalment loans had been put in at 6 per cent rather than 10 per cent, largely because the bank had a very high turnover rate in such loans.
- c) The bank's building had been put in at \$1,000,000 as its liquidating value whereas the formula took \$600,000.
- d) Some bonds due in 1972 had been included in the 10 year bond total even though they would not actually all be within 10 years until this December.

He then compared the results of his computations with the formula presented by Vice President Crosse of the Federal Reserve Bank of New York, according to which the bank in 1956 had a capital deficiency of \$2,505,000 and was only 58.6 per cent capitalized; whereas now the bank would have a capital deficiency of \$490,000 and would be 91.9 per cent capitalized, according to a consistent set of computations.

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Under the Federal Reserve's ABC formula, Mr. Sullivan noted that, with the adjustments he had explained, the 1956 capital deficiency as he computed it was \$1,698,000 and the bank was then only 67.6 per cent capitalized; whereas on a consistent basis in March 1962 the deficiency would be \$295,000 and the bank would be 95 per cent capitalized. These comparisons, although differing in the ways explained from the Board's procedure, illustrated on a consistent basis the improvement that had taken place since 1956.

After some further discussion of the figures presented, Mr. Sullivan stated that he had come here for the purpose of exploring whether there was any merit to the analysis that he had presented and whether there was any possibility of settling the issues between the Board and the bank other than by pursuing the matter through the courts. He sincerely wanted to settle the case if it was possible to do so. There were certain things that he could not do, and he realized that the Board, as a supervisory body, was also in a position where there were certain things that it must do and other things that it could not do. This was different from settling a matter of difference between two private parties. He recognized these differences, and even if it developed that there was no basis for an understanding which would bring this matter to a conclusion, he would not regret having come to meet with the Board. He did not feel now that there was any more likelihood that Continental ultimately would lose the case than when it started. In fact, maybe he

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felt even more as though the bank might win the case in the courts. As things had developed, however, he knew that his bank must work with the supervisory authorities and regardless of what came out of this meeting Continental Bank would in the future avoid the kind of disagreement with supervisory authorities that had existed in past years. In the end, he recognized that the bank would have to do what the supervisory authorities required because the bank had to be a member of the Federal Reserve System in order to hold the balances that were so vital to it, and to do that it would have to meet its capital needs one way or another. As far as he was concerned, he was not a crusader. To be perfectly honest, he believed that the worst thing that could happen to Continental in this case, from the standpoint of its future, would be to win the case. There would always be a bitterness on the part of the supervisory authorities, unconscious or otherwise, something that could not be taken out of the staff. In his experience, there was never any question that did not have some judgment level to it, and he believed that that was true in this case. He was working with the people at the Federal Reserve Bank of San Francisco, he could get along with all of them, and he said this knowing that the San Francisco Bank people would not do anything that they did not believe was right. But there were matters of judgment and, while he did not expect that the supervisory authorities would go any further with his bank than with any other bank, he would ask that Continental be treated just as any other bank would. If this proceeding could be settled, it

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would be his hope--and this was the only basis on which it would be satisfactory from his standpoint--that the members of the Board would find that other than for routine approvals that might have to be given to matters having to do with the bank they would never hear of Continental Bank again. He would like to have the bank operate that way. He would get along with the Board and he would get along with the other supervisory authorities. If this case were to be settled and still have the same attitude as between his bank and the supervisory authorities as has existed in past years, the bank would still be a dead duck. Mr. Sullivan reiterated that the bank must get along with the supervisory authorities, that it had to have membership, that it could not maintain its balances except as it was known as a good bank, and that this was part of the reason why he was hopeful that there might be some merit to the picture he presented of the current position of the bank and that it might be possible to settle the proceeding. He personally had reached the decision to meet with the Board and he had felt encouraged from conversations that he had had with some of the people in the West that such a meeting might be worthwhile. If he found that a settlement of the case was impossible, he would still go along with the attitude that he would, that he must, work with the supervisory authorities. In time the proceeding would be terminated one way or another, but it would take several years to do it and would cost a great deal to the bank and to the supervisory authorities if it had to be pursued through the courts to an ultimate conclusion in that manner.

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Mr. Sullivan then posed a question that might be asked of him: why, if this were his attitude and if he intended to maintain that position in the future regardless, why did he not simply concede the matter in the courts and put up the \$1,500,000 that had been ordered by the Board in 1960?

Answering his question, Mr. Sullivan said he could not do that. He could not concede in that manner. He could not sell this deal down the river, and he would not do that. On the other hand, if the case was ultimately decided by the courts, regardless of who might win he did not believe the answer would be found in that manner. He still believed it would get back to whether the bank would work with the supervisory authorities. If the bank was to live and survive and grow, it had to do that. If it had taken a more reasonable attitude and worked with the supervisory authorities five or six years ago, the picture would have been different. He also was trying to put himself in the position of the members of the Board and to consider just how far they might go in trying to settle the case. He recognized that the Board could not afford to settle the issue on the basis of conceding to the bank either. He would not expect that. However, if the bank could work out a settlement and if it could plan for the future including the getting of a needed branch from time to time, if the bank got its capital up through earnings or otherwise, it might be possible, it seemed to him, for the Board to consider that Continental had increased its capital over a period to where

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it was in line with other banks, and if the bank got to that position, then the proceeding which was now six years old would become moot. Therefore, the case could be dropped without conceding from either side. The Board certainly would not lose it. On the other hand, the Board would not win it in the sense of having the bank concede. The fact that the bank put up some more capital would perhaps give the Board a level more of winning than of not winning. The Board would not be compromising anything.

Mr. Sullivan repeated that he wanted very much to settle the case and he hoped that there would be merit to what he was exploring. If the Board could take a look at the bank's present position, have its staff analyze its condition, and come up with some figure of present capital deficiency that could be supported in line with the position of other banks, this was the kind of situation that he could accept; if he could meet the lower level of a range of satisfactory capital--there must be a range to what would be considered satisfactory--Mr. Sullivan said that he would think that the Board would not be compromising its position. He was suggesting that the Board could offer a range within which the bank's capital might be considered to be satisfactory in line with the condition of other banks.

This led him to pose another question that might be asked of him: why was he not now specifically offering some amount of capital?

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To answer his own question, Mr. Sullivan said that he could not suggest a figure of the kind that he was asking for: it was something for the Board and its staff to suggest, to analyze the position of the bank and come up with a figure. If the Board did not find merit in this or some other way of settling the case, that of course would end the matter, but he hoped and believed that it was worth coming back to meet with the Board and to explore the question.

Mr. Sullivan said he did not expect the Board to make any decision at this meeting or at this time or even to make any comments on his suggestion. He realized that this was entirely a matter for the Board to consider. He hoped that his proposal had some possible merit and that the Board would wish to explore it further, and that it would find that it could give him some indication that it could be explored further.

Mr. Sullivan then noted that the date on which the hearing on the show cause order was scheduled to start was July 23; if the Board did believe there was some merit to an effort to settle the case without proceeding on through the courts, that would almost certainly call for some postponement of the hearing. If the Board were to indicate to him that there was some basis for considering this further--not necessarily that a settlement could be arrived at but that it could be considered--then he would be prepared to request that his attorneys seek a postponement of perhaps 60 days in the start of the hearing on the show cause order.

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He had valid reasons for making such a request in view of the fact that he was administrator of both the estate of Mr. Walter Cosgriff and of Mr. Cosgriff's mother and would be extremely busy with these and other matters during the next 60 days.

Mr. Sullivan stated that he realized that over time his bank was going to have the capital that the Federal Reserve required. It would have it by one means or another. If the approach he was now presenting was not the right one, but if there was a desire to settle the case and if there was some other approach that had merit, that was something that he would like to explore. He would like to get back to running the bank, making it a good bank, growing with the community, rather than pursuing this case through the courts for several additional years.

Mr. Sullivan stated again that he was sincere in his desire to settle the case if there was any possible way of doing so without an outright conceding of the matter. In any event, if it proved that this was not possible, he wanted to assure the Board that it would never again have difficulty in dealing with the Continental Bank as in past years. If this were not to be the case, he personally would sell his interests in the bank, get out of the banking business and retire, because he did not want to go on with the attitude that had existed in past years. On this note, he concluded his presentation and stated that he would leave the matter with the Board.

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Chairman Martin stated that the entire Board appreciated the attitude expressed by Mr. Sullivan and that the Board would consider the matter carefully.

Mr. Sullivan responded this was what he needed. If the Board found that his suggestion had any merit at all, a telephone call would bring him to Washington again. He might make application for an extension of the hearing until September, since he believed that would be needed. If the idea had some merit, but even if it didn't work, his attitude would be just the same: he will be glad to have tried. Although, in that case, he would appreciate it if the Board would issue a final order terminating membership, although he realized the Board and its attorneys had reasons for what they thought was necessary.

Governor Mills said that, if he understood Mr. Sullivan correctly, essentially he was pointing to the fact that retained earnings of the Continental Bank had built up the bank's capital during the life of this proceeding and the bank was getting to a point where it was important for it to establish one or several branches.

Mr. Sullivan responded that he had in mind a very limited number of branches--one was all he needed right now.

Governor Mills went on to say, "And you would have in mind applying for an authority to establish that branch and in that connection you would offer capital--"

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Mr. Sullivan responded that he did not anticipate establishing a lot of branches. He was confident that the retained earnings of the bank would take care of growth of the bank. But if that were not the case, he was prepared to put up the capital that was needed. They would get it from the stockholders, although he would not want to put up a lot more capital unless they got some growth in the bank. Right now he was faced with a dividend policy and it was very difficult to reduce that dividend, but he was certainly able to say that the bank would maintain the same dividend level for the next two or three or five years and not increase it. He had no desire to increase the dividend. In fact, if this proceeding could be settled, and if he found that he was going to need another million dollars of capital for growth, he probably would go to the stockholders and tell them that it was foolish to pay out funds in cash dividends now, that it would be better to pay a stock dividend and keep the earnings in the bank.

Governor Mills then asked whether, if the bank put up the capital that was needed, Mr. Sullivan would consider that tantamount to recognizing the authority of the Federal Reserve System as applying to the need for providing capital.

Mr. Sullivan responded in the negative. He said that he did not propose that he was going to concede the legal issue in this matter. If the proceeding could be settled, he was going to go on working with the Federal Reserve System and the supervisory authorities, but he could not

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concede the legal question. He was never again going to raise the question of authority or whether the System had the authority: he was not that stupid. But, as far as the capital was concerned, it was his firm belief that if the bank got into a depression again it would be able to anticipate its losses.

Mr. Sullivan then pointed out that March 26, 1962, was a rather poor date in some respects for the comparisons he had presented because of the bank's tax payments, dividends, and interest payments on savings deposits. He had with him a condition statement taken as of June 30, 1962, which showed the adjusted capital position of Continental Bank to total \$5,389,350.39. There was a dividend payment of \$158,000 to be met, but to offset that, there was \$222,000 in a building company that could be transferred to the bank's capital at any time. Also, there was a life insurance company (Paramount) that could be liquidated and capital transferred to the bank. These would give about \$400,000 additional capital. If this proceeding could be settled, the first thing that he would do would be to ask the Board to permit him to liquidate the life insurance company and to put the capital into the bank. Mr. Sullivan stated that if the Board considered there was any possibility, any merit whatever to the question he had been exploring, he would be glad to work with any member of the Board or with any member of the Board's staff, or any other person the Board might designate in trying to provide further information.

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At this point Mr. Sullivan withdrew from the meeting.

Chairman Martin then inquired of Mr. Leavitt how soon he would have the memorandum for the Board regarding the condition of Continental Bank on the basis of the examination made in January of this year, and Mr. Leavitt responded that he hoped that it would be available the latter part of this week.

Chairman Martin then suggested that this matter be set down for consideration at the meeting of the Board on July 11, 1962, when all members would be present, and there was agreement with this suggestion.

Mr. Hackley stated that, immediately upon receipt of comments of Board Counsel on the Motion to Produce and Demand for Particulars now before the Board from Continental, he would recommend that the Board allow Counsel for Continental an opportunity to reply to the memorandum from Board Counsel. This would carry forward until approximately July 16 the time within which Continental Counsel might submit such comments.

Governor Mitchell inquired as to the latest date on which the Board's response might be given to the motions before it in order to permit the start of the show cause hearing on July 23. Mr. Hackley responded that the purpose of the show cause hearing was to permit the bank to say why its membership should not be terminated, and the bank had in effect said that it had nothing to say at such a hearing, for which reason it had asked that the Board issue a final order terminating membership. From the standpoint of the bank, therefore, a relatively short time would be

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needed. However, the Board and its staff would need time to consider these motions before it, as well as Mr. Sullivan's call of today.

In response to a further question from Governor Mitchell as to the significance of the figures the bank would be using at a show cause hearing, Mr. Hackley stated that the burden then would be shifted to the Board as to whether to terminate membership. The Board would be obliged at that time to consider the current figures of the bank's condition in arriving at a decision whether or not to terminate membership.

Governor Mitchell remarked that, on this basis, it would seem that if the current condition figures of the bank indicated its position was reasonably satisfactory, the Board would have no case for terminating membership.

Mr. Hackley stated that the point was that the figures Mr. Sullivan was prepared to submit at this time would be pertinent in the Board's consideration as to what action it should take for failure of the bank to have complied with the Board's order.

The meeting then adjourned.

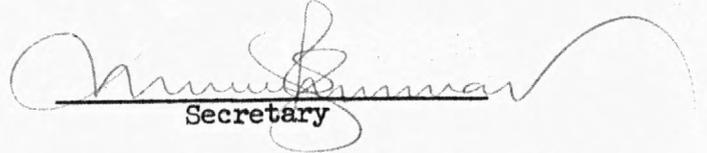
Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Richmond (attached Item No. 7) approving the designation of seven employees as special assistant examiners.

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Letter to the Federal Reserve Bank of San Francisco (attached
Item No. 8) approving the designation of 12 employees as special
assistant examiners; and discussing the current indebtedness of
an assistant examiner to a national bank.



Secretary

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

Item No. 1
7/2/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 2, 1962



Board of Directors,
First Bank and Trust Company,
Fords, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by First Bank and Trust Company, Fords, New Jersey, at 1379 St. Georges Avenue, Avenel, Woodbridge Township, New Jersey, provided the branch is established within one year from the date of this letter.

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
7/2/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 2, 1962

Board of Directors,
The Central Trust Company,
Cincinnati, Ohio.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to February 1, 1963, the time within which The Central Trust Company, Cincinnati, Ohio, may establish a branch in the Eastern Hills Plaza Shopping Center on Paxton Avenue, south of Oakley Park and Athletic Playfield, Cincinnati, Ohio.

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
7/2/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 2, 1962

Board of Directors,
Ann Arbor Bank,
Ann Arbor, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of an in-town branch by Ann Arbor Bank in the vicinity of the intersection of Plymouth Road and Huron Parkway, provided the branch is established within one year from the date of this letter.

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
7/2/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 2, 1962

Board of Directors,
Spur Security Bank,
Spur, Texas.

Gentlemen:

The Federal Reserve Bank of Dallas has forwarded to the Board of Governors your letter dated May 31, 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 Dallas 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 208.10(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 Dallas.

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. 5
7/2/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 2, 1962

The Honorable Erle Cocke, Sr., Chairman,
Federal Deposit Insurance Corporation,
Washington 25, D. C.

Dear Mr. Cocke:

Reference is made to your letter of June 12, 1962,
concerning the desire of Spur Security Bank, Spur, Texas, to
continue as an insured bank following its withdrawal from
membership in the Federal Reserve System.

No corrective programs have been urged upon the bank
or agreed to by it which the Board of Governors believes should
be incorporated as conditions to the continuance of deposit
insurance.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

7/2/62

THE CONTINENTAL BANK & TRUST COMPANY
SALT LAKE CITY, UTAH

	October 16, 1956	March 26, 1962
	(000 omitted)	
ASSETS		
Cash & Due From Banks	\$ 16,868	\$ 14,624
Federal Funds Sold	7,000	3,000
U. S. Government Bonds	14,827	14,898
Municipal Bonds & Other	3,578	3,322
Total Bonds	<u>18,405</u>	<u>18,220</u>
Loans and Discounts	36,857	38,598
Reserve for Loan Losses	264	740
Total Loans	<u>37,121</u>	<u>39,338</u>
Building Stock	1,405	1,564
Leasehold		78
Furniture & Fixtures	236	229
Other Assets (Federal Reserve Stock)	<u>154</u>	<u>166</u>
TOTAL ASSETS	<u>81,189</u>	<u>77,218</u>
LIABILITIES		
Individual	30,281	25,975
U. S. Government	686	1,364
Public Funds	4,970	2,034
Other Bank	12,827	9,318
Other Demand	769	895
Total Demand Deposits	<u>49,533</u>	<u>39,586</u>
Individual	27,292	25,680
Public Funds		5,350
Other	77	45
Total Time Deposits	<u>27,369</u>	<u>31,075</u>
Total Deposits	<u>76,903</u>	<u>70,661</u>
Income Collected Not Earned	640	901
Federal Funds Borrowed	50	
Other Liabilities	50	109
Capital	1,800	2,700
Surplus	1,010	1,415
Undivided Profits	215	333
Current Earnings - Net	257	359
Reserve for Loan Losses	264	740
Total Capital Accounts	<u>3,546</u>	<u>5,547</u>
TOTAL LIABILITIES & CAPITAL	<u>81,189</u>	<u>77,218</u>
Risk Assets	42,494	44,696
Risk Asset Ratio	8.34%	12.41%
Capital to Total Deposits	4.61%	7.85%
Capital to Total Assets	4.37%	7.18%
Substandard	2,169	788
Doubtful	52	67
Loss	32	1
Total Classified	<u>2,253</u>	<u>856</u>
% of Capital Accounts	63.5%	15.4%
% of Total Loans	6.07%	2.18%
Cross ^a Formula	2,505	490
% Capitalized	58.6%	91.9%
Secondary Risk Asset Ratio - Capital to Risk Assets	\$1.00 to \$10.21	\$1.00 to \$7.20
Federal Reserve Formula		
Federal Reserve Bank of St. Louis % Capitalized	1,698 67.6%	295 95.0%

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 7
7/2/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 2, 1962

Mr. John L. Nosker, Vice President,
Federal Reserve Bank of Richmond,
Richmond 13, Virginia.

Dear Mr. Nosker:

In accordance with the request contained in your letters of June 27, 1962, the Board approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of Richmond for the purpose of participating in examinations of State member banks except those appearing opposite their names:

James R. T. Hodgson	-The Bank of Virginia, Richmond, Virginia.
Johnson N. Snoddy, Jr.	-State-Planters Bank of Commerce and Trusts, Richmond, Virginia.
Robert R. Beasley	-State-Planters Bank of Commerce and Trusts, Richmond, Virginia, and Southern Bank and Trust Company, Richmond, Virginia.
Chalmer R. Wright	-State-Planters Bank of Commerce and Trusts, Richmond, Virginia.
Edward B. Armistead	-Southern Bank and Trust Company, Richmond, Virginia.
John E. Broskie	-The Bank of Virginia, Richmond, Virginia.
Charles H. Hilgenhold	-Bank of Powhatan, Incorporated, Powhatan, Virginia.

The authorizations heretofore given your Bank to designate these individuals as special assistant examiners are hereby canceled.

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. 8
7/2/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 2, 1962

Mr. H. E. Hemmings,
First Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Hemmings:

In accordance with the request contained in your letter of June 26, 1962, the Board approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of San Francisco for the purpose of participating in examinations of State member banks only:

J. L. Maune	W. F. Heinsberg
R. Olsen	J. J. Laurie
D. B. Silk	J. W. Poquet
F. L. Beeman	J. W. Brown
H. J. Rogers	

The Board also approves the designation of the following employees as special assistant examiners for the Federal Reserve Bank of San Francisco for the purpose of participating in examinations of State member banks except those listed opposite their names:

K. S. Pattee	-The Oregon Bank, Portland, Oregon.
B. D. Simmons	-Walker Bank & Trust Company, Salt Lake City, Utah.
W. B. Stewart	-The Continental Bank and Trust Company, Salt Lake City, Utah.

Appropriate notations have been made on our records of the names to be deleted from the list of special assistant examiners.

Mr. H. E. Hemmings

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It is noted that Assistant Examiner E. L. Abbott has become indebted to Crocker-Anglo National Bank, San Francisco, California, through the acquisition by that bank of his note to the original nonbank lender, and that he will not be permitted to participate in any examination of that bank until his indebtedness has been liquidated. Your attention is called to the fact that the renewal of any such loan would be considered as the making of a new loan by the national bank and apparently would be prohibited by the Criminal Code as discussed in the Board's letter S-1680 of November 20, 1958.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.