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Minutes for July 20, 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

(M)

Gov. Mills

[Signature]

Gov. Robertson

[Signature]

Gov. Balderston

CCB

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Gov. Mitchell

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on Friday, July 20, 1962. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Robertson
Mr. Shepardson
Mr. Mitchell

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Noyes, Director, Division of Research and Statistics
Mr. Koch, Adviser, Division of Research and Statistics
Mr. Brill, Associate Adviser, Division of Research and Statistics
Mr. Furth, Adviser, Division of International Finance
Mr. Eckert, Chief, Banking Section, Division of Research and Statistics
Mr. Yager, Chief, Government Finance Section, Division of Research and Statistics
Mr. Keir, Senior Economist, Division of Research and Statistics
Mr. Mattras, General Assistant, Office of the Secretary

Money market review. Mr. Koch reported on developments in the Government securities market, along with bank credit, liquidity, and related matters. Mr. Brill commented on tables that he had distributed bearing on the question of the adequacy of credit expansion during the periods subsequent to the trough of recession in 1958 and in 1961.

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All members of the staff except Messrs. Sherman, Kenyon, Molony, Cardon, Fauver, and Mattras then withdrew and Messrs. Hexter and Hooff, Assistant General Counsel, Goodman and Leavitt, Assistant Directors, Division of Examinations, and Young, Senior Attorney, Legal Division, entered the room.

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, Chicago, and San Francisco on July 19, 1962, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Circulated or distributed items. The following items, which had been circulated or distributed to the Board and copies of which are attached under the respective numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to Morgan Guaranty International Banking Corporation, New York, New York, granting permission to purchase additional shares of Trust Corporation of Bahamas Limited, Nassau, N. P., Bahama Islands.	1
Letter to First National City Bank, New York New York, approving an extension of time to establish a branch in the Castelo District of Rio de Janeiro, Brazil.	2
Letter to The Bank of Wood County Company, Bowling Green, Ohio, approving an extension of time to establish a branch between East Court and East Wooster Streets.	3

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Item No.

Letter to the Deputy Comptroller of the Currency regarding a question presented by First National Bank of Hillsboro, Hillsboro, Kansas, as to whether the bank may pay an accumulation of six months' interest to the holder of a twelve-month time certificate of deposit.

4

Letter to Chairman Spence of the House Committee on Banking and Currency reporting on S. 1486, a bill to regulate service charges by national banks on dormant accounts.

5

Messrs. Hooff and Goodman then withdrew.

Report on competitive factors (Rapid City, South Dakota).

There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in a proposed consolidation of The Western National Bank of Rapid City, Rapid City, South Dakota, and Rapid City Trust Company, Rapid City, South Dakota, with American National Bank of Rapid City, Rapid City, South Dakota.

The report, in which the conclusion read as follows, was approved unanimously for transmittal to the Comptroller:

Applicant banks are commonly owned and operated and are not regarded as competitive institutions. There should be no adverse competitive effects from the proposed consolidation.

Application of United California Bank (Items 6 and 7).

Pursuant to the decision by the Board on July 12, 1962, to approve the application of United California Bank, Los Angeles, California,

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to merge with Farmers and Merchants Bank of Blythe, Blythe, California, there had been distributed drafts of an order and statement reflecting that decision.

The issuance of the order and statement was authorized.

Copies of the documents, as issued, are attached as Items 6 and 7, respectively.

The meeting then adjourned.

Secretary's Notes: The steps contemplated by the Board's action on May 7, 1962, in issuing a preliminary permit to Bamerical International Financial Corporation, New York, New York, having been completed, a final permit to commence business was issued today to that corporation.

Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson approved on behalf of the Board on July 19, 1962, the following actions relating to the Board's staff:

Appointments

Barbara R. Sills as Statistical Clerk in the Division of Research and Statistics, with basic annual salary at the rate of \$3,760, effective the date of entrance upon duty.

Edith M. Fenton as Clerk (Librarian) in the Division of Personnel Administration on a temporary basis, with annual salary at the rate of \$2,038 (half-time position), effective the date of entrance upon duty.

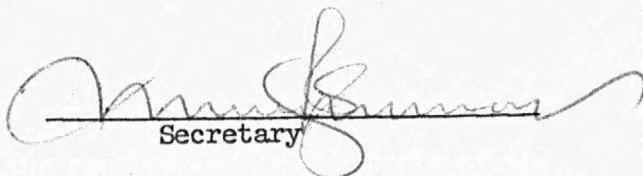
Acceptance of resignation

Katherine E. Olson, Records Clerk, Office of the Secretary, effective at the close of business August 3, 1962.

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Pursuant to the recommendation contained in a memorandum from the Division of International Finance, Governor Robertson, acting in the absence of Governor Shepardson, approved on behalf of the Board on July 19, 1962, the appointment of Alan Sokolski as Economist in that Division, with basic annual salary at the rate of \$8,955, effective the date of entrance upon duty. It was understood that the requirement for completion of a full-field investigation prior to employment would be waived in this case.


Secretary

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

Item No. 1
7/20/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 20, 1962

Morgan Guaranty International
Banking Corporation,
23 Wall Street,
New York 8, New York.

Gentlemen:

In accordance with the request and on the basis of the information furnished with your letters of May 31 and June 26, 1962, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants its consent for Morgan Guaranty International Banking Corporation ("MGIBC") to purchase and hold up to 587 additional shares, par value Bahamian £20 each, of the capital stock of Trust Corporation of Bahamas Limited, Nassau, N. P., Bahamas, at a cost not to exceed approximately US\$55,000, provided such stock is acquired within one year from the date of this letter.

The Board's consent is granted upon condition that MGIBC shall dispose of its holdings of stock of the Trust Corporation, as promptly as practicable, in the event that the Trust Corporation should at any time (1) engage in issuing, underwriting, selling or distributing securities in the United States; (2) engage in the general business of buying or selling goods, wares, merchandise or commodities in the United States or transact any business in the United States except such as is incidental to its international or foreign business; or (3) otherwise conduct its operations in a manner which, in the judgment of the Board of Governors, causes the continued holding of its stock by MGIBC to be inappropriate under the provisions of Section 25(a) of the Federal Reserve Act or regulations thereunder.

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
7/20/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



July 20, 1962

First National City Bank,
399 Park Avenue,
New York 22, New York.

Gentlemen:

In view of the request contained in your letter of July 5, 1962, transmitted through the Federal Reserve Bank of New York, and on the basis of the information furnished, the Board of Governors extends to August 1, 1964, the time within which your Bank may establish a branch in the Castelo District of Rio de Janeiro, Estado da Guanabara, Brazil, as authorized by the Board on July 21, 1960, and as extended by the Board's letter of July 21, 1961.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is opened for business, furnishing information as to the street address of the branch.

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. 3
7/20/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 20, 1962



Board of Directors,
The Bank of Wood County Company,
Bowling Green, Ohio.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to November 26, 1962, the time within which The Bank of Wood County Company, Bowling Green, Ohio, may establish an in-town branch between East Court and East Wooster Streets at the New York Central Railway, under authority granted in the Board's letter dated July 6, 1961.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



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

Item No. 4
7/20/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 20, 1962

Mr. C. C. Fleming,
Deputy Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Dear Mr. Fleming:

This refers to your letter of July 6, 1962, enclosing a letter of June 23, 1962, to the Comptroller of the Currency from Mr. P. F. Friesen, President of First National Bank of Hillsboro, Hillsboro, Kansas. Mr. Friesen presents the question whether his bank may pay an accumulation of six months' interest to the holder of a twelve-month time certificate of deposit, copy of which was enclosed.

The Supplement to Regulation Q establishes the maximum interest a member bank may pay on a time certificate of deposit. The Regulation does not prescribe any rules as to when such interest may be paid. This is a matter of contract between the bank and the customer. Therefore, if both parties agree, a bank may pay the accrued interest on a twelve-month time certificate of deposit any time or times before its maturity at the maximum rate of 4 per cent per annum, compounded quarterly. Of course, as has been stated by the Board in a previous interpretation (1960 F.R. Bulletin 630), if accrued interest is constantly being paid out, the provision which permits the compounding of interest on a quarterly basis is not applicable as there will be no interest retained upon which interest may be paid.

Your attention is invited to the last sentence of the certificate of deposit which states that "this bank reserves the right, at its option, to require thirty days written notice before permitting withdrawal." The purpose of this sentence is unclear. Since the depositor has made a contract to leave a certain amount of money on deposit until a specified date, he cannot demand its repayment until that date. Also, since the date of maturity is explicit in the certificate itself, there should be no need for thirty days written notice prior thereto.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 5
7/20/62

OFFICE OF THE CHAIRMAN

July 20, 1962

The Honorable Brent Spence, Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to a telephone request by a member of the staff of your Committee for the views of the Board on S. 1486, a bill "To authorize the Comptroller of the Currency to establish reasonable maximum service charges which may be levied on dormant accounts by national banks."

You are advised that the Board has no objection to favorable consideration of the bill.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Item No. 6
7/20/62

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

 In the Matter of the Application of
 UNITED CALIFORNIA BANK
 for approval of merger with
 Farmers and Merchants Bank of Blythe

ORDER APPROVING MERGER OF BANKS

There has come before the Board of Governors, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), an application by United California Bank, Los Angeles, California, a member bank of the Federal Reserve System, for the Board's prior approval of the merger of that bank and Farmers and Merchants Bank of Blythe, Blythe, California, under the charter and title of the former and, as an incident to the merger, a branch would be operated at the location of Farmers and Merchants Bank of Blythe. Notice of the proposed merger, in form approved by the Board, has been published pursuant to said Act.

Upon consideration of all relevant material in the light of the factors set forth in said Act, including reports furnished by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Department of Justice on the competitive factors involved in the proposed merger,

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IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is approved, provided that said merger shall not be consummated

- (a) within seven calendar days after the date of this Order or
- (b) later than three months after said date.

Dated at Washington, D. C., this 20th day of July, 1962.

By order of the Board of Governors.

Voting for this action: Chairman Martin, and
Governors Balderston, Robertson, Shepardson, King,
and Mitchell.

Absent and not voting: Governor Mills.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 7
7/20/62

APPLICATION BY UNITED CALIFORNIA BANK
FOR APPROVAL OF MERGER WITH
FARMERS AND MERCHANTS BANK OF BLYTHE

STATEMENT

United California Bank, Los Angeles, California ("United"), a State member bank, with deposits of approximately \$2.1 billion, has applied, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), for the Board's prior approval of the merger of that bank and Farmers and Merchants Bank of Blythe, Blythe, California ("Farmers"), with deposits of approximately \$3.8 million. The banks would merge under the charter and title of United and, as an incident to the merger, the office of Farmers would be operated as a branch of United.

Under the Act, the Board is required to consider (1) the financial history and condition of each of the banks involved, (2) the adequacy of its capital structure, (3) its future earnings prospects, (4) the general character of its management, (5) whether its corporate powers are consistent with the purposes of 12 U.S.C., Ch 16 (the Federal Deposit Insurance Act), (6) the convenience and needs of the community to be served, and (7) the effect of the transaction on competition (including any tendency toward monopoly). The Board may

not approve the transaction unless, after considering all these factors, it finds the transaction to be in the public interest.

Banking factors. - United has been authorized to establish 11 offices in addition to the 1140 which it is presently operating and has other branch applications pending or to be filed. In connection with this program to provide additional facilities, United plans to issue additional capital stock when necessary, thus providing a desirable strengthening of its capital position. The capital structure of Farmers is satisfactory, as would be true of the resulting bank under the program just described. The financial history and condition and earnings prospects of each of the banks are satisfactory, as would be true of the resulting bank. The management of each of the banks is regarded as satisfactory. However, Farmers does not now have a chief executive officer and in the past several months two of its directors have taken time from their principal business activities to operate the bank. Following consummation of the proposed merger, United, through its comprehensive management training and recruitment program, would be able to provide qualified personnel to operate the branch that would replace Farmers. The management of the resulting bank would be satisfactory. No inconsistency with the purposes of 12 U.S.C., Ch. 16, is indicated.

Convenience and needs of the community. - Blythe, California (population about 6,000), is located in the Palo Verde Valley of Riverside County, 250 miles east of Los Angeles, and is separated from the populous coastal communities by mountain ranges. The main economic pursuit of the area consists of irrigation farming and cattle feeding. There is also some mineral production. The farms in the area, many of which exceed

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1,000 acres, require lines of credit ranging from \$25,000 on a short-term basis for small operations to \$2 million for continuing lines of credit for large operations. Farmers' lending limits and its limited resources enable it to supply only a small part of the local requirements for cattle feeding and crop production. The bank presently makes no real estate loans on farm properties or FHA or VA mortgages, nor does it handle automobile "floor plan" or conditional sales contracts.

Most of the farm financing in the Blythe service area (population about 13,000) is provided by an office of Security First National Bank, Los Angeles, the second largest bank in the State. With the size of agricultural units rapidly increasing, there is demand for larger real estate loans to aid in the reclamation and development of additional land for agricultural use under irrigation, which at the present time can be satisfied by Farmers only through participations. Farmers, because of its relatively limited resources, is additionally handicapped in that agricultural loans usually do not generate deposits, since as a rule they must be disbursed quickly for crop planting and purchasing of cattle. United would have ample resources to meet these credit demands and would offer a wider range of banking services.

Competition. - United is the fourth largest bank in the State and one of three operating state-wide branch systems. Its present 140 operating offices are located in 29 of the 58 counties of the State. Its offices nearest to Farmers are at El Centro, 165 miles southwest, and Hemet, 161 miles west. The primary service

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area of Farmers includes all of the Palo Verde Valley, extending approximately 20 miles north and south and 15 miles east and west.

There is virtually no competition between the two banks.

As previously mentioned, the only other banking office within Farmers' primary service area is the Blythe office of Security First National Bank, Los Angeles, and the proposed merger should result in a healthy increase in competition in the area. On a state-wide basis, the proposed merger would have virtually no effect on competition.

Summary and conclusion. -- The Palo Verde Valley is an isolated area where loan requirements are often quite large. The proposed merger would provide another bank which, under experienced and capable management, could offer the farmers and ranchers a wider range of banking services, including the relatively large loans needed in this area. While virtually no competition would be eliminated, the merger should result in a healthy increase in competition with the office of the second largest bank in California that also serves the area.

Accordingly, the Board finds the proposed merger to be in the public interest.

July 20, 1962