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Minutes for September 28, 1962

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

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

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin

RM

Gov. Mills

Gov. Robertson

K

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, September 28, 1962. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Adviser to the Board and
Director, Division of International
Finance
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Noyes, Director, Division of Research
and Statistics
Mr. Holland, Adviser, Division of Research
and Statistics
Mr. Koch, Adviser, Division of Research
and Statistics
Mr. Knipe, Consultant to the Chairman
Mr. Landry, Assistant to the Secretary
Mr. Eckert, Chief, Banking Section, Division
of Research and Statistics
Mr. Yager, Chief, Government Finance Section,
Division of Research and Statistics
Mr. Axilrod, Senior Economist, Division of
Research and Statistics

Money market review. Mr. Yager reviewed recent developments in the Government securities market, following which Mr. Axilrod reported on bank credit, the money supply, and related matters, referring in the course of his comments to a summary table of monetary developments distributed before the meeting.

1/ Withdrew from meeting at point indicated in minutes.

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Following this presentation all members of the staff except Messrs. Sherman, Kenyon, Cardon, Fauver, and Landry withdrew and the following entered the room:

- Mr. Hackley, General Counsel
- Mr. Farrell, Director, Division of Bank Operations
- Mr. Solomon, Director, Division of Examinations
- Mr. Shay, Assistant General Counsel
- Mr. Goodman, Assistant Director, Division of Examinations
- Mr. Leavitt, Assistant Director, Division of Examinations
- Mr. Thompson, Assistant Director, Division of Examinations
- Mr. Entriken, Attorney, Legal Division
- Mr. Hill, Attorney, Legal Division
- Mr. Harris, Assistant Review Examiner, Division of Examinations
- Mr. Smith, Assistant Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on September 27, 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 item. The following item, a copy of which is attached to these minutes as Item No. 1, was approved unanimously:
Letter to Wells Fargo Bank, San Francisco, California, approving an extension of time to establish a branch in Monterey County.

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Inquiry from Mr. Burkett. Governor Balderston reported receipt of a telephone call from Mr. William A. Burkett, President of Security State Bank, Pacific Grove, California, who expressed concern about the fact that Wells Fargo Bank, San Francisco, had been granted permission to establish a branch about one mile south of Security State Bank. Mr. Burkett inquired, in effect, whether the authorization to establish the branch could be rescinded. After checking with members of the Board's staff, Governor Balderston advised Mr. Burkett that, whereas a denial could be reversed, there would seem to be no basis upon which an approval could be rescinded. He also pointed out to Mr. Burkett that in considering the branch application the Board had taken into account, among other things, Mr. Burkett's letter of protest.

Report on competitive factors (Canajoharie-Cherry Valley, New York). Distribution had been made of a draft report to the Comptroller of the Currency with respect to the competitive factors involved in a proposed consolidation of Central National Bank, Canajoharie, Canajoharie, New York, and Otsego County National Bank of Cherry Valley, Cherry Valley, New York. The conclusion of the report would state:

While the proposal would eliminate the moderate amount of competition existing between the two institutions, it would not have adverse competitive effects of consequence.

Without objection, the report was approved for transmission to the Comptroller of the Currency.

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Report on competitive factors (Fremont-Lindsey, Ohio).

Copies had been distributed of a draft report to the Comptroller of the Currency on the competitive factors involved in a proposed consolidation of The Liberty National Bank of Fremont, Fremont, Ohio, and The Lindsey Banking Company, Lindsey, Ohio.

Following discussion, the report, which contained the following conclusion, was approved unanimously for transmission to the Comptroller of the Currency:

The proposed consolidation would not have an adverse effect on competition.

Bank Service Corporation Act (Items 2 and 3). There had been distributed copies of a memorandum from the Legal Division dated September 27, 1962, attaching a draft of statement designed to be of initial guidance to State member banks in connection with the Bank Service Corporation Act (H. R. 8874) in the event of its passage by the Senate and approval by the President, along with a draft of letter that would transmit the statement to the Federal Reserve Banks and request their assistance in duplicating and mailing the statement to State member banks upon advice of the bill's enactment into law.

Asked by Governor Balderston for his comments, Mr. Shay noted that in view of the desirability of a uniform approach the draft statement had been made available to the Federal Deposit Insurance Corporation, since that agency had expressed interest in

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issuing a similar statement to nonmember insured banks. Thus, the Corporation might have some suggestions with respect to the draft statement. Mr. Shay also cited certain minor changes in wording suggested by the Board's staff. Although the matter also had been mentioned to the Chief Counsel for the Comptroller of the Currency, Mr. Shay said, no indication of interest in the subject had been received in the ten-day period that had since elapsed.

A discussion ensued with respect to whether additional efforts should be made to coordinate with the Office of the Comptroller of the Currency on this question, but it was decided that no further efforts should be made in view of the circumstances as described by Mr. Shay.

With regard to the content of the proposed letter and statement, Mr. Shay brought out that State member banks would be directed to furnish the assurances required by section 5 of the Bank Service Corporation Act to the Federal Reserve Bank of their district, and that the assurances would be retained in the Reserve Bank's files unless other advice should be given by the Board. (According to section 5, no State member bank could cause to be performed, by contract or otherwise, any bank services for itself, whether on or off its premises, unless satisfactory assurances were given to the Board of Governors of the Federal Reserve System by both the bank and the party performing such services that the performance thereof

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would be subject to regulation and examination by the Board to the same extent as if such services were being performed by the bank itself on its own premises.)

The statement was then approved unanimously subject to possible changes in detailed wording after further consultation with the Federal Deposit Insurance Corporation, with the understanding that the letter and statement would be transmitted to the Federal Reserve Banks in anticipation that H. R. 8874 would be signed into law.

Secretary's Note: On October 3, 1962, the Senate adopted certain amendments to H. R. 8874, the effect of which was to limit bank service corporations to the performance of services for banks only. On October 5 the House passed the bill as amended. Necessary changes were made by the staff in the statement proposed to be issued to State member banks. On October 8 the letter and statement, copies of which are attached to these minutes as Items 2 and 3, respectively, were sent to the Federal Reserve Banks, along with a draft of press statement in the form authorized by the Board on October 3, 1962.

Mr. Holland, Adviser, Division of Research and Statistics, re-entered the room during the foregoing discussion and Messrs. Cardon and Goodman withdrew at its conclusion.

Application of Peoples Union Bank and Trust Company.

Copies had been distributed of a memorandum from the Division of Examinations dated September 13, 1962, along with a memorandum from the Legal Division dated September 26, regarding an application by Peoples Union Bank and Trust Company, McKeesport, Pennsylvania,

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to merge with The Bank of Glassport, Glassport, Pennsylvania. The Federal Reserve Bank of Cleveland recommended favorably on the application, as did the Division of Examinations. Reports on competitive factors received from the Comptroller of the Currency and the Federal Deposit Insurance Corporation were not unfavorable, but the report of the Department of Justice was adverse.

In its review of the application in the light of the various factors enumerated under the provisions of section 18(c) of the Federal Deposit Insurance Act, the memorandum of the Division of Examinations noted that the asset condition of the resulting bank would be satisfactory. It would have adequate capital and its prospects for profitable operations were satisfactory. With respect to management, emphasis was placed on the current management problem of the Glassport bank. As regards convenience and needs of the communities to be served, the memorandum referred to the somewhat depressed nature of the area's economy and the decrease since 1950 in the populations of both McKeesport and Glassport, and to the nonavailability of land for industrial or residential expansion in either community. With respect to the effect of the proposed transaction on competition, it was the view of the Division of Examinations that although consummation of the proposal would eliminate the moderate amount of competition existing between Peoples

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and the Glassport bank, there would be little if any effect on banking competition in Allegheny County where the Glassport bank's sole office and five of Peoples' offices, including its head office, were located.

At the Board's request, Mr. Leavitt commented on the application in some detail, his remarks being based on the memorandum from the Division of Examinations. With reference to the report on competitive factors from the Department of Justice, he stated that when the original report was received the Division of Examinations noted certain factual errors. These were brought to the attention of the Justice Department informally, and a revised report was promised. However, the amended report still was not free from technical errors. Mr. Leavitt indicated that if the merger application should be approved by the Board, he would go back to the Justice Department and try to get the factual errors corrected before the Department's summary was published in the Board's Annual Report.

There followed, in response to questions by Governor Mitchell, a discussion of the economic characteristics of the Glassport community, after which the members of the Board expressed their views on the merger application.

Governor Mills said that he would vote to approve the application, although he saw some substance in the comment of the

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Justice Department that the development of the two large banks in McKeesport was bringing gradual pressure on the competitive status of smaller banks in the area. The countervailing consideration was that McKeesport was located in the metropolitan area of Pittsburgh. Thus, the large Pittsburgh banks provided competition to the McKeesport banks and alternative sources of banking services.

Governor Robertson stated that were it not for the management problem and the small size of the Glassport bank, he would vote to disapprove the application, because competition would be eliminated thereby. However, due to the factors to which he had referred, particularly the management situation, he would vote to approve the application.

Governor Shepardson stated that he would vote to approve the application. As he saw it, the amount of present or potential competition eliminated was not sufficient to offset the advantages that would result from the merger.

Governor Mitchell said that he would vote likewise. However, he hoped that the Board's statement as to this case would place major emphasis on the correction of managerial difficulties of the Glassport bank rather than the fact that not too much competition was being eliminated.

Governor Balderston said that he also would vote to approve the application.

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Accordingly, the application of Peoples Union Bank and Trust Company, McKeesport, Pennsylvania, to merge with The Bank of Glassport, Glassport, Pennsylvania, was approved unanimously, it being understood that a draft of order and statement reflecting this decision would be prepared by the Legal Division for consideration at a subsequent meeting of the Board.

The Secretary reported that Governor King had indicated that if he had been present at today's meeting he would have voted to approve the application.

Application of First Wisconsin Bankshares Corporation. There had been distributed memoranda from the Division of Examinations and the Legal Division dated, respectively, September 7 and September 26, 1962, regarding an application by First Wisconsin Bankshares Corporation, Milwaukee, Wisconsin, for prior approval of the acquisition of shares of Merchants & Savings Bank, Janesville, Wisconsin, concerning which an oral presentation was given before the Board on August 7, 1962. The Wisconsin Commissioner of Banks had commented adversely on the application, while the Federal Reserve Bank of Chicago recommended approval. The conclusion of the Division of Examinations was that on balance unfavorable elements with respect to competition and the public interest outweighed favorable elements with respect to the other factors required to be considered under the statute; and it was recommended that the application be denied. The Legal Division's memorandum took

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the position that a decision for either denial or approval would probably be sustained upon judicial review as being a reasonable exercise of the Board's discretion.

Specifically, with respect to the statutory factors required to be considered, the memorandum of the Division of Examinations noted that the financial history and condition and prospects of the applicant and the bank were favorable. With respect to the management factor, although Merchants might have experienced difficulty in obtaining successor management, the Division did not feel that the problem was so serious as to result in a lowering of the quality of the bank's assets or placing in jeopardy its financial condition or prospects; and the belief was expressed that the bank could continue to meet the problem as it had in the past, without sale of the bank to a large holding company. It was also suggested in the memorandum that the management problems inherent in a small country bank were not present in this case; the community of Janesville had a population of 35,000, with easy access to Milwaukee and Chicago, and Merchants, as a \$21 million bank, was not small. With regard to the convenience, needs, and welfare of the community and area concerned, the memorandum expressed agreement with the contention of the holding company that if the proposed acquisition were accomplished, Merchants would be able to arrange necessary

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participations with somewhat greater facility than was now possible. Also, there were a number of areas in which First Wisconsin's knowledge and experience would be available to assist Merchants in providing additional specialized services to its customers. If, in fact, the proposed affiliation would allow Merchants to recapture the business of Parker Pen Company and other Janesville enterprises that had gone to Chicago and New York City for banking accommodation, economic benefits to the Janesville area might result. However, it appeared that the general banking needs of the majority of Janesville residents were being adequately served by the local banks. In addition, there was no certainty that business which had already been lost to New York and Chicago banks would in fact be recaptured or, if recaptured, would remain in Janesville. In summary, it was the opinion of the Division that considerations pertinent to this factor lent some, but not strong, support for approval of the application. Finally, with respect to the effect of expansion of size or extent of the bank holding company upon adequate and sound banking, the public interest, and preservation of competition, it was noted that if the proposal were consummated, First Wisconsin would hold nearly 40 per cent of the total deposits and nearly 38 per cent of IPC deposits of all commercial banks in the six counties where its subsidiaries would be situated. In the opinion of the Division of Examinations the

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consideration of soundness of banking lent no support for either approval or denial of the subject application. Although Merchants was not "dominant" in the strict sense of the word in the Janesville area, it had remained the largest bank in that community and had increased its deposits by nearly \$8 million since 1945 even though it lost substantial deposits of a large customer (Parker Pen Company) during that period; and in each 5-year period since 1945 with the exception of the period 1950-1955, and in the year 1961, Merchants' dollar increase in deposits was greater than that of any other Janesville bank. In two of the periods its percentage increase was also greater. It was noted that consummation of the proposed acquisition would have the effect of increasing the over-all lending limit of the First Wisconsin system of banks, and further increase the competitive strength of First Wisconsin National Bank (Milwaukee), the largest bank in Wisconsin. It was the Division's opinion that the proposed acquisition would have a long-range detrimental competitive effect on the remaining independent banks in Janesville.

At the Board's request, Mr. Thompson commented in some detail on the application, his remarks being based on the memorandum of the Division of Examinations, following which Governor Balderston asked each Board member present for his views, starting with Governor Mills.

Governor Mills said that he concurred in the recommendation of the Division of Examinations and would deny the application. The

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applicant, which was the dominating commercial banking influence in the State of Wisconsin and was already operating in the largest cities, now sought to extend its sphere of influence to another important city. Domination of the banking resources of any particular State was a factor to guard against, especially since entry by a holding company into the large cities brought about radial influences extending into less populous communities that would operate to the competitive disadvantage of smaller banks. To his way of thinking, Governor Mills said, the Division's memorandum brought out clearly that the smaller banks in the Janesville area would suffer competitively from the absorption of Merchants by First Wisconsin Bankshares. He noted that the industrial complex in the area of Wisconsin concerned and in the adjacent area of Illinois inevitably produced corporations of a size such that their credit and other requirements were beyond the facilities that could be accorded by local banks, causing these corporations to seek accommodation from banks in major cities. It was true in this situation (and it would likewise be brought out, he suspected, in the Marine Corporation - Beloit State Bank case) that banks in smaller communities such as Janesville tended to suffer inroads on their large accounts from the large correspondent banks in Chicago and New York City, but this was part of a logical process.

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Noting that his views on the application agreed with those expressed by the Division of Examinations, Governor Robertson said that he would disapprove the application. He saw no sufficient basis on which approval might be justified.

Governor Shepardson said that although he recognized the force of the factors brought out by the Division of Examinations, he was concerned about the growing industrial complex in the Illinois-Wisconsin region, which conceivably could reach a point where only the largest banks in the country could adequately serve some of the corporations operating there. Given the relatively small size of the banks in Janesville, he wondered whether it was advisable to impose a ceiling on the ability of a particular bank to get closer to meeting the reasonable industrial needs of the area. Furthermore, he questioned the statement in the Division's memorandum that Merchants was presently serving the banking needs of Janesville. Although this statement was probably accurate with respect to the mass of population in the service area of the bank, it could hardly be regarded as accurate with respect to the larger firms in the area that, although relatively few in number, provided a significant amount of the employment. Were the present application from one of the smaller bank holding companies in Wisconsin, he felt that he would be favorably inclined; but First Wisconsin Bank-shares accounted for a large share of the banking business of the State.

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Governor Mitchell noted that basically he agreed with much of the Division's memorandum. On the other hand, he had never thought of First Wisconsin Bankshares as an organization having imperialistic ambitions, and he regarded its principal bank, First Wisconsin National Bank, Milwaukee, as a well-run institution. The holding company had an honorable record, and based on his knowledge of some of the individuals and the communities concerned, he doubted that it had any desire to monopolize the banking business in the State of Wisconsin. If he were to criticize, Governor Mitchell said, it would be on the basis that the holding company had not been aggressive enough. In further comment, Governor Mitchell suggested that in a State like Wisconsin, where fundamental changes were occurring in the banking structure, the Board had an obligation to strike down proposals hostile to the public interest or the preservation of competition. However, where such an effect was not truly evident, he was inclined to let the profit motive determine the course of such changes. After studying the record and thinking about it against his background, he could not see that consummation of the current proposal would be hostile to the public interest, a view that he also held at the moment with respect to the pending Marine Corporation - Beloit State Bank case. In the First Wisconsin - American Bank and Trust Company (Racine) case, he had not yet seen the record. However, he would not be surprised to find that there was intense

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competition between First Wisconsin National Bank and the Racine institution. On balance, Governor Mitchell said, he would be inclined to approve the current application.

Governor Balderston stated that he also was inclined toward approval. He could not bring himself to believe that Merchants & Savings Bank, although the largest bank in the thirteenth city in the State of Wisconsin, was a big institution when it had deposits of \$22 million. Although Wisconsin was a State with considerable industry which could go to Chicago or New York for credit accommodation, he was worried as to whether the future of the State would be helped by striking down the present application. On balance, he came out with the same conclusion as that reached by the Federal Reserve Bank of Chicago and Governor Mitchell, namely, that the application should be approved.

At this point Governor Shepardson said that, as indicated by his previous comments, he had strong doubts about turning down the application. Now, following Governor Mitchell's reference to his first-hand knowledge and observation over the years of First Wisconsin Bankshares' operations, he (Governor Shepardson) was inclined, everything considered, to favor approval of the application.

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With respect to the servicing of the credit needs of the sizable business firms in Janesville, Governor Mills said it had been his experience that in instances where one or two large business firms outgrew a community the reason was that their product or services were reaching a market that extended far beyond the boundaries of the community. It became a matter of happenstance that the firm was located in a particular community. To his way of thinking, Merchants & Savings Bank was of a size consistent with the population of Janesville and that population's need for banking services. He questioned the need of affiliation of that bank with First Wisconsin Bankshares on the grounds of providing accommodation to two or three business firms that had outgrown the financial resources of the community.

Governor Robertson commented that he found it difficult to understand how the proposed acquisition of Merchants & Savings by First Wisconsin Bankshares could be considered in the public interest. In proportion to the size of Janesville, Merchants was a big bank, and it would not necessarily grow larger through affiliation with the holding company. Furthermore, he could not see that advantages would accrue through the proposed transaction so far as improved ability to meet the needs and convenience of the public was concerned; and he did not believe that the management

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factor was important in this case. In his judgment, a favorable decision on the application would run counter to several comparable cases decided by the Board in the past and would probably give rise to litigation.

Governor Mitchell stated that, as he saw the situation, there was nothing in the record to indicate that consummation of the proposal would be contrary to the public interest. He referred to the competitive situation in Janesville as apparently a healthy one. There were two other banks about the same size as Merchants and one smaller bank. Historical figures showed at some times a better performance by Merchants, and at other times a better performance by the other banks, partially explained by changes in the Parker Pen Company account at Merchants. In his belief, it was helpful to have different types of banks in a community; he was certain that First Wisconsin Bankshares would add something to the management of Merchants, at least something different and possibly something better. His position on the application was dictated by the fact that he could not find sufficient reason for denial.

In the discussion that ensued, Governor Robertson referred to the purpose of the Bank Holding Company Act of 1956 as being to restrict holding company activities and to prevent a given company from gaining control over banking in any particular area. First Wisconsin

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Bankshares, he noted, already controlled the largest banks in several key cities in Wisconsin. As he interpreted the legislation, in order for the Board to approve an application under the Bank Holding Company Act, a positive benefit to the public interest should be shown.

Governor Mitchell noted the fundamental difference between the philosophy just expressed by Governor Robertson and his own philosophy. In the absence of significant negative factors, he felt that the Board should approve applications under the Bank Holding Company Act. As he read the current trend in banking, it seemed likely that the present rate of decrease in the number of banks would continue until the number of head offices of banks would be perhaps no more than a small fraction of the present 14,000. As to the role of the Board in this evolutionary development, he hoped that it would not be a passive one.

Governor Mitchell replied to a question by saying that he could distinguish between the present application and the Morgan Guaranty holding company case, decided adversely by the Board, because of the difference in scale. However, he did not think it was possible on an a priori basis to draw a line between those cases deserving of Board approval and those not warranting approval. Each case must be studied on its own merits. He did

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not believe that control by First Wisconsin Bankshares of 35 to 40 per cent of bank deposits in six counties in Wisconsin indicated a threat to competition. He noted that the holding company's largest bank (First Wisconsin National Bank, Milwaukee) did business all over the country and was not restricted in its operations to the State, from which it followed that percentages of deposits on a State basis were misleading.

Mr. Hackley recalled that he had argued in the past that if the several factors required to be considered by the Bank Holding Company Act were truly neutral, it would not be necessary for the Board to find a positive benefit to justify approval of an application. However, the cases of complete neutrality were few in number, thus requiring a balancing of favorable and adverse considerations. Although there was no elimination of existing competition involved in the present application, the Board in a number of cases had declared that the effect on potential competition should be taken into account; in this respect it was possible, as had been suggested, to compare the First Wisconsin application to the Morgan Guaranty case. People reading the Board's statement in the event of approval might regard the situation as worse potentially than in the Morgan case, since First Wisconsin Bankshares already controlled the largest bank in each of the five cities where it had banks. Thus, in view of the possibility of an

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unfavorable potential effect on competition in the acquisition of Merchants & Savings Bank by a holding company that controlled the largest bank in Milwaukee and in several other cities, it would appear necessary in the event of Board approval to find some positive offsetting factor. This might be a factor such as the one mentioned by Governor Shepardson, namely, the increase in services to the community that the proposed acquisition might entail.

In this connection, Governor Shepardson noted that he was under no illusion that Merchants & Savings would automatically become a larger bank upon becoming part of the First Wisconsin Bankshares system. However, the affiliation might provide a means of enabling larger accounts to be held within Wisconsin. In suggesting the possibility that Merchants might provide greater service to Janesville should it be acquired by First Wisconsin, Governor Shepardson said, he had not been thinking of General Motors and Parker Pen Company as the only possibilities. Rather, with an indication that Janesville was a growing and thriving community, it seemed likely that other industries would develop with substantial credit needs.

There followed references to certain other applications pending before the Board, namely, applications by Marine Corporation

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to acquire Beloit State Bank and by First Wisconsin Bankshares to acquire American Bank and Trust Company, Racine. The desirability of considering these cases together was suggested, if possible at a time when a full Board was present. Accordingly, it was agreed to defer a decision on the Janesville case in order that it might be studied further in relation to the Beloit and Racine cases. In this connection, the suggestion was made that the Division of Research and Statistics might be able to provide economic commentary that would be helpful to the Board.

Governor Mitchell then withdrew from the meeting.

Study of eligible paper. There had been distributed copies of a memorandum from Mr. Hackley dated September 27, 1962, relating to a proposal for legislation regarding discounts and advances by the Federal Reserve Banks that had been the subject of reports by the System Committee on Eligible Paper and the Subcommittee on Legislation of the Presidents' Conference dated May 25 and August 28, 1962, respectively. At the meeting of the Conference of Presidents on September 10, 1962, a draft of suggested legislation that had been prepared by the Subcommittee was "generally" approved, along with the Subcommittee's recommendation that the draft be submitted to certain outside groups for comment.

As noted in Mr. Hackley's memorandum, the over-all effect of the proposed legislation would be to remove from the law technical

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requirements as to the eligibility of paper that had frequently given rise to difficult interpretations in the past; eliminate statutory requirements as to maturity; and leave to the Board broad and flexible authority to prescribe by regulation such restrictions and limitations on advances as might be considered necessary. With respect to the recommendation in the Subcommittee report of August 28 that the draft legislation be submitted to the Farm Credit Administration, the American Bankers Association, and the Association of Reserve City Bankers for their views, it was Mr. Hackley's opinion that the draft legislation was in satisfactory form for such submission from a legal point of view, without regard, however, to policy considerations.

Governor Balderston inquired as to the views of the Board on the procedure to be followed, and Governor Mills expressed the thought that it would be unwise at this stage to submit the proposed legislation to outside groups for comment. Under the proposed legislation, the administration of the discount function would be guided largely by such regulations as might be promulgated by the Board. In his view, therefore, it would be premature to seek comments in the absence of consideration by the Board of draft regulations that would implement the proposed statutory changes.

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Governor Robertson indicated that his views were along the same lines as those expressed by Governor Mills.

Shelter contract. Governor Shepardson reported that a contract with the George A. Fuller Company had been prepared for construction of a fallout shelter in the Board's building, as contemplated by the action taken by the Board on September 12, 1962. The contract provided for a fixed maximum cost and a fixed fee to the builder except for a provision that all savings under the maximum were to be shared in by the contractor to the extent of 25 per cent. In the absence of objection, Governor Shepardson said, the Secretary would execute the contract with the Fuller Company on the Board's behalf.

No objection being indicated, it was understood that the Secretary would execute the contract on the Board's behalf.

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 the following actions relating to the Board's staff:

Appointment

Ann Sutyak as Secretary in the Office of the Secretary, with basic annual salary at the rate of \$4,840, effective the date of entrance upon duty.

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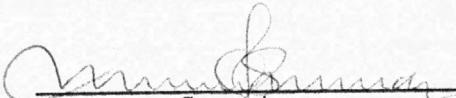
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Salary increases

Ruth H. Clarke, Editorial Clerk, Division of Research and Statistics, from \$4,840 to \$5,160 per annum, effective September 30, 1962.

David R. Hull, Economist, Division of Research and Statistics, from \$6,930 to \$7,560 per annum, effective September 30, 1962.

Winofred Racz, Chart Machine Operator, Division of Research and Statistics, from \$6,345 to \$6,600 per annum, effective September 30, 1962.


Secretary

Item No. 1
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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 28, 1962

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

Gentlemen:

The Board of Governors of the Federal Reserve System extends to April 9, 1963, the time within which Wells Fargo Bank may establish a branch in the vicinity of the intersection of California State Highway #1 and Carmel Valley Road in Carmel Valley, Monterey County, California.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



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Item No. 2
9/28/62

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD
October 8, 1962.

Dear Sir:

Enclosed is a copy of a statement of the Board on the so-called "Bank Service Corporation Act" (H. R. 8874). The statement has been prepared in order to provide to State member banks some initial guidance concerning the measure in the event it is signed into law by the President. The bill was passed by the House of Representatives on October 5 with the amendments adopted by the Senate on October 3. A copy is also enclosed of a draft press release to be issued by the Board on the date when the bill is signed into law.

The time when the bill will be signed by the President cannot be foretold. Nevertheless, it is believed that the measure, which would become effective immediately upon its approval, is of such interest that copies of the Board's statement, and the attachment thereto, should be prepared in advance so as to be available for immediate mailing to all State member banks if the bill becomes law.

Accordingly, the Board has asked that you arrange for such printing or duplicating of the enclosed statement and its attachment as may be necessary in order that, upon advice by wire from the Board that the bill has been signed by the President, copies can thereupon be mailed by your Bank to each State member bank in your district.

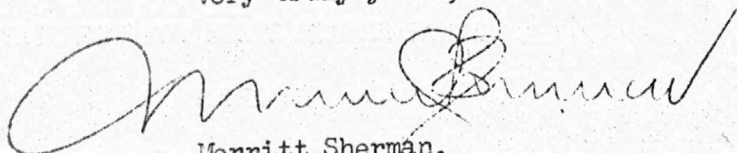
You will note that on the cover page of the Board's statement the Public Law number is incomplete, as is true also of the approval date of the Act and the date of issue of the statement. The Public Law number and the dates of approval and issue (which will be the same) should be completed, prior to mailing of the statements, from information that will be contained in the Board's wire advice of the signing of the bill by the President.

You will note also that the Board's statement directs that the assurances required by section 5 of the legislation are to be furnished to the Board by a letter addressed by the State member banks to the

Federal Reserve Bank of the district. Until otherwise advised, please retain in the files of your Bank such letters of assurance as may be received from State member banks in your district.

The Board will appreciate your assistance in connection with this matter.

Very truly yours,

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

Merritt Sherman,
Secretary.

Attachments

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

Item No. 3
9/28/62

BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM

STATEMENT FOR STATE MEMBER BANKS

ON THE

"BANK SERVICE CORPORATION ACT"

(Public Law 87- , approved _____, 1962)

Issued _____, 1962

STATEMENT OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
ON THE BANK SERVICE CORPORATION ACT

Purpose of the Statement. - The purpose of this statement is to provide some initial guidance to State banks that are members of the Federal Reserve System relative to the so-called "Bank Service Corporation Act", which became effective on the approval date shown on the cover page hereof. A copy of the text of the Act is attached to this statement.

The Act involves an area of relatively recent development and is the first Federal legislation to deal with the subject specifically. None of the provisions of the Act has a delayed effective date. While all banks are not expected to have the same immediate interest therein, the Act or some of its provisions will have a present interest to many banks which contemplate or now have arrangements for utilizing bank services of the kind covered by the Act. Accordingly, this statement sets forth or summarizes salient features of the Act and refers in some detail to the provisions of section 5 of the Act relating specifically to the assurances concerning regulation and examination required to be furnished to the appropriate Federal supervisory agency which, in the case of State member banks, is the Board of Governors of the Federal Reserve System.

Bank investment in bank service corporations. - The legislative history of the Act contains numerous recognitions of the need to enable banks to utilize modern automated equipment by means of their ownership

of stock in corporations referred to in the Act as "bank service corporations."

To facilitate this objective, the Act provides that "No limitation or prohibition otherwise imposed by any provision of Federal law exclusively relating to banks shall prevent any two or more banks from investing not more than 10 per centum of the paid-in and unimpaired capital and unimpaired surplus of each of them in a bank service corporation." This 10 per cent investment ceiling applies to loans and other advances of funds, as well as the purchase of stock.

The Act, however, does not authorize a State bank to invest in a bank service corporation if the bank is not permitted to do so under applicable State law.

Bank service corporations. - "Bank service corporation" is defined in the Act to mean "a corporation organized to perform bank services for two or more banks, each of which owns part of the capital stock of such corporation, and at least one of which is subject to examination by a Federal supervisory agency."

While initially at least two or more banks must own stock in a bank service corporation, the Act provides that if one bank ceases to hold such stock and to utilize the services of the corporation, the remaining bank may continue to hold stock of and be serviced by the corporation.

Bank service corporations are prohibited from performing any services for persons or organizations other than banks. Another provision of the Act is intended to prevent any unfair or anti-competitive use of a bank service corporation to the disadvantage of a non-stockholding bank applying for service from the corporation.

Examination and regulation. - Under section 5 of the Act, no State member bank "may cause to be performed, by contract or otherwise, any bank services for itself, whether on or off its premises, unless assurances satisfactory to" the Board of Governors of the Federal Reserve System are furnished to it "by both the bank and the party performing such services that the performance thereof will be subject to regulation and examination by" the Board of Governors "to the same extent as if such services were being performed by the bank itself on its own premises." (Section 5 of the Act also applies to national banks and nonmember insured banks; but, as to them, the assurances described in the section must be furnished to the Comptroller of the Currency or the Federal Deposit Insurance Corporation, as the case may be.)

With respect to section 5 of the Act, the Senate Committee on Banking and Currency stated that the Federal supervisory agencies "must be able to examine all of the banks' records, and they must be able to exercise proper supervision over all the banks' activities, whether performed by the banks' employees on their premises or by anyone else on or off the banks' premises. This examination and this supervision cannot be frustrated by a transfer of the banks' records to some other organization or by having some other organization carry out all or part of the banks' functions." (S. Rept. No. 2105, 87th Cong. on H. R. 8874, Sept. 18, 1962, p. 3.) Similarly, the Committee on Banking and Currency of the House of Representatives stated that "it

would obviously be unwise to permit banks to avoid the examination and supervision of vital banking functions by the simple expedient of farming out such functions." (H. Rept. No. 2062, 87th Cong. on H. R. 8874, July 30, 1962, p. 2.)

Assurances of banks and suppliers of bank services. - The assurances required by section 5 of the Act in the case of a State member bank should be furnished to the Board of Governors through the Federal Reserve Bank of the district. The Act requires such assurances from the party or organization performing the bank services, as well as from the bank for which the services are performed. Assurances are required whether the services are performed under pre-existing arrangements or new arrangements, and whether the services are performed by bank service corporations or others.

Unless and until further experience with the new legislation should indicate a need for other or more detailed procedures, it will be satisfactory for the required assurances to be furnished to the Board of Governors by a letter addressed by the State member bank to the Federal Reserve Bank, stating in substance that the bank and the servicing agency have agreed that the performance of the services will be subject to regulation and examination by the Board of Governors to the same extent as if the services were being performed by the bank itself on its own premises. With respect to any service arrangement in existence at the effective date of the Act, it is expected that

the letter of assurance will be received by the Federal Reserve Bank as promptly as practicable, preferably within 30 days from such date. As to any service arrangement entered into or renewed after the effective date of the Act, the letter of assurance should be received by the Federal Reserve Bank prior to the performance of any services under such arrangement. Such letters need not be furnished, unless specifically requested by the Board of Governors, in connection with arrangements for the performance of legal services or administrative services such as transportation services or guard services. Arrangements for bank services needed because of emergencies or short periods of unusually heavy work may also be made without furnishing such letters where it would be impracticable to do so.

"Bank services," - In connection with section 5 of the Act, as well as in other connections, references are made in the Act to "bank services." That term is defined in the Act to mean "services such as check and deposit sorting and posting, computation and posting of interest and other credits and charges, preparation and mailing of checks, statements, notices, and similar items, or any other clerical, bookkeeping, accounting, statistical, or similar functions performed for a bank."

As previously noted, numerous recognitions appear in the Act's legislative history of the need for banks and their customers to benefit from the use of modern automated equipment. Of further

relevance with respect to the meaning of "bank services" are the statements quoted above from the reports of the congressional committees. Bearing importantly upon the meaning of "bank services" also is the following further quotation from page 3 of the Report of the Senate Committee:

"The authority to examine and supervise banks is broad and must be vigorously exercised. At the same time sound discretion must be used. Banks have always employed others to do many things for them, and they will have to continue to do so, and the bill is not intended to prevent this or to make it more difficult. For example, banks have employed lawyers to prepare trust and estate accounts and to prosecute judicial proceedings for the settlement of such accounts. Banks have employed accountants to prepare earnings statements and balance sheets. Banks have employed public relations and advertising firms. And banks have employed individuals or firms to perform all kinds of administrative activities, including armored car and other transportation services, guard services and, in many cases, other mechanical services needed to run the banks' buildings. It is not expected that the bank supervisory agencies would find it necessary to examine or regulate any of these agents or representatives of a bank, except under the most unusual circumstances. The authority is intended to be limited to banking functions as such.

"The committee is aware also that, during emergencies and short periods of unusually heavy work, performance of bank services by outside organizations may be necessary and may involve no problems from the point of view of bank examination and supervision. The committee expects the bank supervisory agencies to make sure that the authority vested in them under the bill and their general supervisory authority are exercised with this need in mind."

Inquiries concerning the Act. - Inquiries concerning the Act as it relates to State member banks should be addressed to the Federal Reserve Bank of the district in which the inquiry arises.

Attachment