

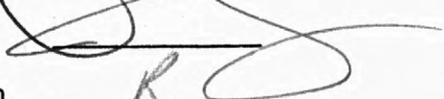
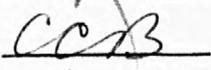
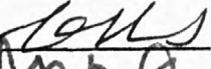
Minutes for November 5, 1962

To: Members of the Board
From: Office of the Secretary

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

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

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

| | |
|-----------------|---|
| Chm. Martin | <u></u> |
| Gov. Mills | <u></u> |
| Gov. Robertson | <u></u> |
| Gov. Balderston | <u></u> |
| Gov. Shepardson | <u></u> |
| Gov. King | <u></u> |
| Gov. Mitchell | <u></u> |

Minutes of the Board of Governors of the Federal Reserve System on Monday, November 5, 1962. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
 Miss Carmichael, Assistant Secretary
 Mr. Fauver, Assistant to the Board
 Mr. Hackley, General Counsel
 Mr. Farrell, Director, Division of Bank Operations
 Mr. Solomon, Director, Division of Examinations
 Mr. Hexter, Assistant General Counsel
 Mr. Goodman, Assistant Director, Division of Examinations
 Mr. Leavitt, Assistant Director, Division of Examinations
 Miss Hart, Senior Attorney, Legal Division

Circulated items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

| | <u>Item No.</u> |
|---|-----------------|
| Letter to The Merrill Trust Company, Bangor, Maine, approving the establishment of a branch in Hampden. | 1 |
| Letter to Provident Tradesmens Bank and Trust Company, Philadelphia, Pennsylvania, approving the establishment of a branch in the King of Prussia Plaza, Upper Merion Township. | 2 |

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| | <u>Item No.</u> |
|--|-----------------|
| Letter to Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, approving the establishment of a branch in the Lynnview Shopping Center, branch operations at 4243 Preston Highway, Jefferson County, to be discontinued simultaneously with the opening of this office. | 3 |
| Letter to Miles City Bank, Miles City, Montana, approving the establishment of a drive-in branch about 65 feet from the bank's main office. | 4 |
| Letter to the Federal Deposit Insurance Corporation regarding the application of Citizens Bank of Windsor, Windsor, Missouri, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System. | 5 |

Supplemental report on competitive factors (Item No. 6). A

memorandum from the Division of Examinations dated October 30, 1962, had been distributed with reference to a competitive factor report that the Board had submitted to the Federal Deposit Insurance Corporation on August 30, 1962, relating to the proposed merger of State Bank of Burke, Morganton, State Planters Bank, Walnut Cove, and The Bank of Madison, Madison, into The Northwestern Bank, North Wilkesboro, North Carolina. The Board's report had concluded as follows:

Consummation of the proposed mergers would eliminate the moderate amount of competition existing between Northwestern and Burke Bank and between State Planters and Madison Bank. It might also have some adverse effect on smaller banks in the service areas of the resulting institution. These mergers represent a trend toward area dominance by Northwestern and also further the trend in North Carolina toward concentration of banking resources in a few large banks.

On October 11, 1962, the Division of Examinations received a supplemental brief and map prepared by The Northwestern Bank in connection

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with the proposed mergers, and in a letter dated October 17 the Chairman of the Federal Deposit Insurance Corporation requested any comments that the Board might wish to make as a result of the additional information furnished.

The supplementary material indicated that Northwestern Bank was competing with the State's largest banks in eight counties. As had been stated in the Board's report to the Federal Deposit Insurance Corporation, the fact remained that Northwestern Bank was the only bank operating in five northwestern counties of the State, and in four other counties it held approximately 50 per cent of the total county bank deposits. For this reason, the Division of Examinations believed that the Board's earlier report should not be changed.

Attached to the memorandum was a draft of letter to the Federal Deposit Insurance Corporation that would state that it was the opinion of the Board that the conclusion expressed in the report submitted on August 30 was still correct.

During the course of a discussion as to the effect of the additional information on the Board's earlier report, Governor Mills commented that he would like to bring up a related subject that was referred to there and also in another proposed report that was now being circulated to members of the Board. In competitive factor reports covering banks in the State of North Carolina, the Board had gotten into a rhythm of stating that the proposed merger represented a trend toward further concentration of banking resources in a few large banks. Such a statement

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repeated over and over again might, he thought, throw a more damaging light on the situation than was deserved. Somewhere along the line, he believed, the Board might want to determine the maximum amount of concentration that would be permissible and beyond which there would be a dominance. Having in mind that there were six rather substantial banks in the State of North Carolina, and considering that number in relation to the relatively small population of the State, there was a question in his mind as to whether the Board should continue referring to the trend toward concentration of banking resources in competitive factor reports covering banks in that State, except perhaps in some critical case. With six large banks, there was a high degree of competition throughout the State. He observed that this question had come up time after time and in each instance the Board had in effect said that the trend toward concentration should not go on. There were, however, instances in which the Board itself had approved mergers involving the largest bank in the State. This was a matter he thought the Board might wish to consider further. In this instance, however, he did not think that any change should be made in the conclusion of the Board's August 30 report.

At the conclusion of the discussion, the letter to the Federal Deposit Insurance Corporation was approved unanimously. A copy is attached as Item No. 6.

Mr. Furth, Adviser, Division of International Finance, then entered the room.

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Application by Sumitomo Bank of California. There had been distributed memoranda from the Division of Bank Examinations and the Legal Division dated October 4 and October 18, 1962, respectively, regarding a request from The Sumitomo Bank of California, San Francisco, California, for authority to accept commercial drafts or bills of exchange up to 100 per cent of capital and surplus. The request was made in accordance with provisions of section 13 of the Federal Reserve Act that prohibit a member bank from accepting commercial drafts or bills of exchange in an amount equal at any time in the aggregate to more than 50 per cent of its paid-up and unimpaired capital stock and surplus. Section 13 provides further, however, that with the permission of the Board of Governors, a member bank may accept such drafts or bills in an amount not exceeding at any time in the aggregate 100 per cent of its paid-up and unimpaired capital stock and surplus.

The Sumitomo Bank of California, a State member bank, was a 50 per cent-owned subsidiary of The Sumitomo Bank, Ltd. of Osaka, Osaka, Japan, which maintained a New York agency. It had been the practice of the Osaka bank to send the California bank acceptances against letters of credit issued by the Osaka bank in connection with Japanese exports to the United States. Under instructions from the Osaka bank, the drafts were held to maturity by the California bank without discounting. As a result of an increase in San Francisco of the practice of financing trade transactions through the use of bankers acceptances and the local demand for other types of credit, the California

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bank had been unable to hold all accepted drafts in its portfolio. Therefore, it had executed an agreement with the Japanese bank's New York agency under which the California bank transferred some of the acceptances to the agency.

In the view of Counsel for the Federal Reserve Bank of San Francisco, the California bank could not sell the acceptances themselves since it did not own them. The Reserve Bank had taken the position that the transactions amounted to no more than the New York agency's assumption of liability on the acceptances in the event that the importer did not pay them off at maturity, with the result that, since the Reserve Bank considered that the California bank remained primarily liable, the amount of the acceptances would continue to be included in that bank's total outstanding. For that reason, the California bank had applied for permission to accept commercial drafts or bills of exchange up to 100 per cent of its capital and surplus.

The Federal Reserve Bank of San Francisco had recommended granting the authority requested, but the Board's Division of Examinations did not concur since it thought that (1) the bank's rating was not sufficiently high to warrant granting the increased acceptance powers and (2) increased acceptance authority should be granted only in those cases where a bank's bills had been tested in the market and were offered at rates somewhere near prime acceptance rates, whereas in this case the California bank had made no serious effort to establish its name in the market.

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The Division of Examinations recommended that the Reserve Bank be informed that the Board would be reluctant to grant the requested authority but that no objection would be raised to amounts outstanding in excess of 50 per cent of capital and surplus if such excess amounts of acceptances were (1) held physically by the applicant bank for its parent bank, and (2) under an arrangement whereby the excess amount was participated to the New York agency of The Sumitomo Bank of Osaka under an appropriate and legally binding agreement. A draft of letter to the Federal Reserve Bank of San Francisco reflecting that view was attached to the memorandum. Also attached was an alternative draft of letter to The Sumitomo Bank of California for use in the event that the Board might wish to grant the increased acceptance powers that had been requested.

The Legal Division memorandum, in response to a question raised by the Division of Examinations as to whether acceptances retained in the California bank's custody and not discounted should be included in "total acceptances outstanding" for the purposes of Regulation C, Acceptance by Member Banks of Drafts or Bills of Exchange, stated that it might well be argued that documents so retained were not "bank acceptances" in the usual sense of the word. Ordinarily a draft or bill was stamped "accepted" so that it could be renegotiated, whether discounted with an outsider or purchased by the accepting bank in its own portfolio. In this instance the California bank apparently had no intention of discounting the paper in question, having done so only on

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rare occasions and at a penalty rate. It was therefore the view of the Legal Division that the documents held by the bank were not acceptances in the usual sense and they did not need to be included in the statutory total.

At the Board's request, Mr. Goodman commented on the application, his remarks being based substantially on the information presented in the October 4 memorandum that had been distributed.

Governor Mills stated that he considered this an important supervisory problem, and that in its present form the draft of letter that the Division of Examinations proposed sending to the Reserve Bank was not as restrictive as the situation called for. The intent of the applicable portion of section 13 of the Federal Reserve Act, which placed a limitation on the amount of commercial drafts or bills of exchange that might be accepted, was to prevent a member bank from overextending itself. It appeared that in this instance the member bank was creating credits beyond the extent of its deposit liabilities through the vehicle of acceptances. The parent bank was using The Sumitomo Bank of California as a front for the benefit of Japanese exporters. This, he thought, was outside the realm intended and should not be permitted.

There followed a general discussion as to whether the parent bank in Osaka or The Sumitomo Bank of California would be liable for the acceptances held in the event of default on the part of importers. During the course of the discussion Governor Robertson commented that the

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procedure recommended by the Division of Examinations would place no limitation on the amount of acceptances that might be held by the member bank. Thus, the bank might far exceed the statutory limitation.

On the basis of a suggestion by Governor Robertson, in which other members of the Board concurred, it was agreed to defer action on the application until the staff checked further with the Federal Reserve Bank of San Francisco regarding any risk assumed by the member bank in the transactions under consideration.

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 Atlanta (attached Item No. 7) approving the designation of Robert G. Dole, Dan L. Hendley, and Clarence Price, III, as special assistant examiners.

Letter to the Federal Reserve Bank of San Francisco (attached Item No. 8) approving the appointment of Sumner C. Mitchell, Jr., as assistant examiner.

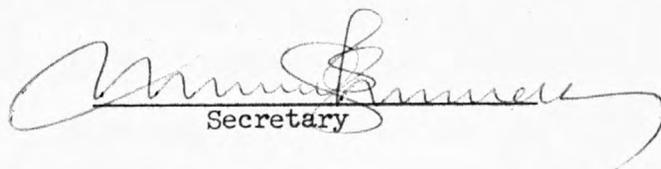
Memorandum from the Division of Research and Statistics recommending the appointment of Darrell G. Pepper as Chart Machine Operator in that Division, with basic annual at the rate of \$3,820, effective the date of entrance upon duty. It was understood that this position would be transferred to the Division of Data Processing, effective January 1, 1963.

Memorandum dated November 5, 1962, prepared by the Division of Personnel Administration, with the concurrence of the Division of Administrative Services, recommending approval of a new Printing Grade Schedule (attached Item No. 9) and increases in the annual salary rates of the following employees in the Division of Administrative Services under the schedule, effective November 11, 1962:

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| <u>Name and title</u> | <u>Annual Salary Rates</u> | |
|--|----------------------------|-----------|
| | <u>From</u> | <u>To</u> |
| Franklin Taylor, Supervisor | \$8,299 | \$8,653 |
| Thomas V. Kopfman, Assistant Supervisor | 7,800 | 8,112 |
| Frank W. Constable, Foreman-Operator | 7,301 | 7,571 |
| Claiborne Johnson, Operator (Offset Press) | 7,030 | 7,322 |
| Bruce L. Moffett, Operator (Offset Press) | 7,030 | 7,322 |
| J. Robert Surguy, Clerk (Composition) | 7,030 | 7,322 |
| Nelson S. Dyson, Photographer (Offset) | 6,531 | 6,781 |
| Edward Cross, Photographer (Offset) | 6,219 | 6,448 |
| Benjamin D. Berry, Foreman-Operator (Mimeograph) | 5,242 | 5,429 |
| Abner Thompson, Multilith Operator | 5,242 | 5,429 |
| Philip D. Faber, Bindery Helper and Operator (Mimeograph) | 4,763 | 4,930 |
| Bishop Hart, Bindery Worker | 5,720 | 5,949 |
| Herbert W. Bundy, Operator (Duplicating Devices) | 4,724 | 4,909 |
| Aaron Dortch, Operator (Xerox-Mimeograph) | 4,514 | 4,680 |
| James Jordan, Operator (Duplicating Devices) | 4,724 | 4,909 |
| James Turner, Offset Press Operator (Multilith) | 4,514 | 4,680 |
| Charles P. Brown, Operator (Mimeograph) | 4,264 | 4,430 |
| Quincy Barnes, Operator (Mimeograph) | 3,827 | 3,952 |


Secretary

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

Item No. 1
11/5/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 5, 1962

Board of Directors,
The Merrill Trust Company,
Bangor, Maine.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Merrill Trust Company, Bangor, Maine, of a branch in the business district of Hampden, Maine, 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
11/5/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 5, 1962

Board of Directors,
Provident Tradesmens Bank and Trust Company,
Philadelphia, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Provident Tradesmens Bank and Trust Company, Philadelphia, Pennsylvania, in the King of Prussia Plaza, Upper Merion Township, Montgomery County, Pennsylvania, 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. 3
11/5/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 5, 1962

Board of Directors,
Citizens Fidelity Bank and
Trust Company,
Louisville, Kentucky.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, in the Lynnview Shopping Center, Jefferson County, Kentucky, provided the branch is established with nine months from the date of this letter.

It is understood that operations at the bank's existing office located at 4243 Preston Highway, Jefferson County, Kentucky, will be discontinued simultaneously with the opening of the office in the Lynnview Shopping Center.

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
11/5/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 5, 1962

Board of Directors,
Miles City Bank, Miles City, Montana,
Miles City, Montana.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Miles City Bank, Miles City, Montana, Miles City, Montana, of a branch in the form of a drive-in facility, presently in operation, located about 65 feet from the main banking premises.

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
11/5/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 5, 1962

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

Dear Mr. Cocke:

Reference is made to your letter of October 24, 1962, concerning the application of the Citizens Bank of Windsor, Windsor, Missouri, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

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

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 6
11/5/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 5, 1962

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

Dear Mr. Cocke:

The Board of Governors has considered the additional information furnished by The Northwestern Bank, North Wilkesboro, North Carolina, in connection with the merger of State Bank of Burke, Morganton, North Carolina, State Planters Bank, Walnut Cove, North Carolina, and The Bank of Madison, Madison, North Carolina, into The Northwestern Bank, North Wilkesboro, North Carolina,

It is the opinion of the Board that the conclusions expressed in its report on the competitive factors involved in subject proposal are still correct.

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. 7
11/5/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 5, 1962

Mr. Geo. W. Sheffer, Jr.,
Chief Examiner,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Sheffer:

In accordance with the request contained in your letter of October 25, 1962, the Board approves the designation of Robert G. Dole, Dan L. Hendley and Clarence Price, III, as special assistant examiners for the Federal Reserve Bank of Atlanta, for the purpose of participating in examinations of State member banks.

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
11/5/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 5, 1962

CONFIDENTIAL (FR)

Mr. P. W. Cavan, Vice President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Cavan:

In accordance with the request contained in your letter of October 24, 1962, the Board approves the appointment of Sumner C. Mitchell, Jr., as an assistant examiner for the Federal Reserve Bank of San Francisco. Please advise the effective date of the appointment.

It is noted that Mr. Mitchell is indebted to Bank of America, NT&SA, Sonoma Branch, Sonoma, California. Accordingly, the Board's approval of Mr. Mitchell's appointment is given with the understanding that he will not participate in any examination of Bank of America, NT&SA, until his indebtedness has been liquidated.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

PRINTING GRADE PAY SCHEDULE*

Basic Annual Pay Rates by Grade

Note: This schedule applies to those positions in the Duplicating, Mail and Supply Section that perform the following kinds of lithographic work: Offset Printing, Offset Photography, Offset Composition, Photostat and Xerox Operation, Mimeograph Operation, Bindery Operation, and to the supervisor and assistant supervisor of those positions.

| <u>Printing Grade</u> | <u>Step 1</u> | <u>Step 2</u> | <u>Step 3</u> |
|-----------------------|---------------|---------------|---------------|
| 1 | \$2,974 | \$3,142 | \$3,307 |
| 2 | 3,245 | 3,411 | 3,578 |
| 3 | 3,474 | 3,661 | 3,848 |
| 4 | 3,723 | 3,910 | 4,098 |
| 5 | 3,952 | 4,160 | 4,368 |
| 6 | 4,202 | 4,430 | 4,659 |
| 7 | 4,451 | 4,680 | 4,909 |
| 8 | 4,680 | 4,930 | 5,179 |
| 9 | 4,930 | 5,179 | 5,429 |
| 10 | 5,158 | 5,429 | 5,699 |
| 11 | 5,408 | 5,699 | 5,990 |
| 12 | 5,658 | 5,949 | 6,240 |
| 13 | 5,886 | 6,198 | 6,510 |
| 14 | 6,136 | 6,448 | 6,781 |
| 15 | 6,365 | 6,698 | 7,030 |
| 16 | 6,614 | 6,968 | 7,322 |
| 17 | 6,864 | 7,218 | 7,571 |
| 18 | 7,093 | 7,467 | 7,842 |
| 19 | 7,322 | 7,717 | 8,112 |
| 20 | 7,571 | 7,966 | 8,362 |
| 21 | 7,821 | 8,237 | 8,653 |

(This schedule supersedes the pay scale effective November 12, 1961)

* Incumbents of positions subject to this pay schedule are eligible for progress step increases within particular salary grades on the following basis:

For advancement to Step 2, after 26 weeks (6 months) satisfactory service in Step 1.

For advancement to Step 3, after 78 weeks (18 months) satisfactory service in Step 2.