

Minutes for November 21, 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 Wednesday, November 21, 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. King

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank
Operations
Mr. Solomon, Director, Division of
Examinations
Mr. Johnson, Director, Division of Personnel
Administration
Mr. Chase, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Kiley, Assistant Director, Division of
Bank Operations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Sprecher, Assistant Director, Division
of Personnel Administration
Mr. Mattras, General Assistant, Office of
the Secretary
Miss Hart, Senior Attorney, Legal Division
Mr. Hill, Attorney, Legal Division
Mr. Poundstone, Review Examiner, Division of
Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on November 19, 1962, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

11/21/62

Circulated or distributed 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 Chase Manhattan Bank, New York, New York, approving the establishment of a branch at Santiago de los Caballeros, Dominican Republic. | 1 |
| Letter to Dutchess Bank and Trust Company, Poughkeepsie, New York, approving the establishment of a branch at 432 South Road, Town of Poughkeepsie. | 2 |
| Letter to the Federal Reserve Bank of Chicago regarding procedure for examining Edge Act corporations. | 3 |
| Letter to Continental State Bank, Alto, Texas, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System. | 4 |
| Letter to Guaranty Bank & Trust Company, Gatesville, Texas, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System. | 5 |
| Letter to the Federal Reserve Bank of New York approving salary structure adjustments at the head office and Buffalo Branch. | 6 |
| Telegram to the Federal Reserve Bank of Minneapolis interposing no objection to the rental, under purchase option, of an additional Burroughs B-270 electronic check processing system. | 7 |
| Letter to Mr. Charles H. Schimpff, President, Investment Company Institute, Los Angeles, California, in reply to his request that the Board review certain of its interpretations of section 32 of the Banking Act of 1933. | 8 |

11/21/62

Chase International Investment Corporation. There had been circulated a draft of letter to Chase International Investment Corporation, New York, New York, granting permission to purchase shares of Financiera de la Pequena Empresa, S. A., San Salvador, El Salvador.

Governor Robertson inquired as to whether the financiera performed such functions that it should properly be regarded as a banking institution. If so, there was the question whether its shares would be eligible for purchase by an Edge Act financing corporation.

After a brief discussion in light of Governor Robertson's question, the Board decided to postpone action on the matter until the Division of Examinations had obtained additional information.

Messrs. Johnson, Sprecher, and Poundstone then withdrew from the meeting.

Application of Walker Bank & Trust Company (Items 9, 10, and 11).

Pursuant to the decision reached on November 6, 1962, Governor Robertson dissenting, there had been distributed a proposed order and statement reflecting the Board's approval of the application of Walker Bank & Trust Company, Salt Lake City, Utah, to merge with First National Bank of Price, Price, Utah.

After discussion, the issuance of the order and statement was authorized with the understanding that certain minor changes would be made in the wording of the statement. Governor Robertson outlined the type of dissenting statement that he wished to have included in support of his negative vote, and it was understood that this statement would be issued along with the order and majority statement.

11/21/62

-4-

Copies of the order, statement, and dissenting statement of Governor Robertson, as subsequently issued, are attached to these minutes as Items 9, 10, and 11.

Miss Hart then withdrew from the meeting.

Interest rate on time certificates (Item No. 12). There had been distributed a memorandum from the Legal Division dated November 20, 1962, in connection with a proposed interpretation of the October 15, 1962, amendment to section 19 of the Federal Reserve Act. On November 6, 1962, the Board had tentatively approved an interpretation to the effect that the October 15 amendment, which exempted certain foreign time deposits from interest rate ceilings, did not apply to such a deposit if transferred to an individual or an institution of a kind other than those described in that amendment. It was understood, in connection with the Board's action of November 6th, that before the interpretation was issued the staff would obtain the views of the Treasury. According to the memorandum, the proposed interpretation was thereafter revised slightly at the suggestion of the Treasury. In the revised form, it was concurred in by the Deputy General Counsel of the Treasury and the General Counsel of the Federal Deposit Insurance Corporation.

In commenting on the matter, Mr. Hackley pointed out that the proposed interpretation would in effect guarantee the purchaser of such a certificate against a reduction in interest rate at maturity by virtue of a prior reduction by the Board of the maximum permissible rate payable on time deposits. However, he did not think this was too

11/21/62

-5-

important. As a practical matter, it seemed unlikely that certificates issued to foreign governments and monetary authorities would have maturities of more than 90 days.

During the discussion that followed, some feeling was expressed that the proposed interpretation might not provide adequate notice to a person who purchased such time certificates from a foreign central bank or other qualified foreign institution. Question was raised whether there should be a requirement for disclosure through the instrument itself.

Mr. Hackley stated that the interpretation would be published in the Federal Register and would therefore constitute legal notice. It was his feeling that member banks were likely to include an explanatory provision in such certificates on their own initiative. One reason for suggesting the issuance of an interpretation was to avoid the delay which might result if it were decided to amend Regulation Q, Payment of Interest on Deposits, to require such disclosure on the face of the certificate. Mr. Hackley indicated, however, that the wording of the interpretation could be reviewed further with the Federal Deposit Insurance Corporation, which planned to join with the Board in making a simultaneous publication in the Federal Register.

The Board then approved unanimously the issuance of the proposed interpretation, with the understanding that prior to its issuance Mr. Hackley would explore further with the Federal Deposit Insurance Corporation the possibility of including language suggesting that

11/21/62

-6-

certificates of deposit issued to foreign central banks or other qualified foreign institutions contain a disclosure that the rate of interest paid to private purchasers from such central banks or institutions could not be higher than the maximum rates permitted to be paid under Regulation Q.

Secretary's Note: Pursuant to the foregoing understanding, Mr. Hackley explored further the possibility of including in the proposed interpretation a suggestion along the lines indicated. Such a suggestion was incorporated in the final form of the interpretation, which was subsequently published in the Federal Register. A copy of the interpretation, as published, is attached to these minutes as Item No. 12.

The meeting then adjourned.

Secretary's Notes: On November 20, 1962, Governor Shepardson approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Boston (attached Item No. 13) approving the appointment of Frank Guthrie McGrath as assistant examiner.

Memoranda from appropriate individuals concerned recommending increases in the basic annual salaries of the following persons on the Board's staff, effective November 25, 1962:

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Office of the Secretary</u>			
Laura J. Banks, Records Clerk		\$4,250	\$4,390
Richard S. Landry, Assistant to the Secretary		9,475	9,790
Mary L. Scott, Records Clerk		4,250	4,390
<u>Research and Statistics</u>			
Murray Altmann, Economist		12,845	13,270

11/21/62

-7-

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Examinations</u>			
William E. Rumbarger, Federal Reserve Examiner		\$8,310	\$8,575
<u>Personnel Administration</u>			
Juliam Perkins, Maid		3,455	3,560
<u>Administrative Services</u>			
P. D. Maddox, General Mechanic-Operating Engineer		4,472	4,701
James R. Turner, Offset Press Operator (Multilith)		4,680	4,909
<u>Office of the Controller</u>			
Jean S. Barber, Accounting Clerk		5,205	5,375

Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Presidents of all Federal Reserve Banks transmitting copies of the forms for the use of State member banks and their affiliates in submitting reports as of the next call date, with the understanding that the letter would be sent when the forms were printed.

Letter to the Presidents of all Federal Reserve Banks transmitting copies of the form for the use of State member banks in submitting reports of income and dividends for the calendar year 1962, with the understanding that the letter would be sent when the form was printed.

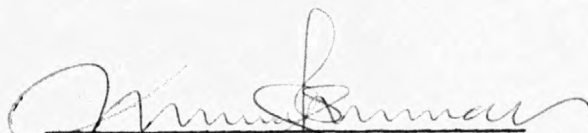
Memoranda from appropriate individuals concerned recommending the following actions relating to the Board's staff:

Salary increase

Carol M. Karstetter, Secretary, Office of the Secretary, from \$4,530 to \$4,885 per annum, effective November 25, 1962. (Change in title from Clerk-Stenographer.)

Extension of duty with field examining staff

Peggy Jo Powles, Special Assistant Federal Reserve Examiner, Division of Examinations, extension of assignment for one additional year, beginning January 3, 1963.


Secretary

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

Item No. 1
11/21/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 21, 1962

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

Gentlemen:

The Board of Governors of the Federal Reserve System authorizes The Chase Manhattan Bank, New York, New York, pursuant to the provisions of Sections 9 and 25 of the Federal Reserve Act, to establish a branch at Calle del Sol, 75, Santiago de los Caballeros, Dominican Republic; and to operate and maintain such branch subject to the provisions of such Sections.

Unless the branch is actually established and opened for business on or before November 1, 1963, all rights granted hereby shall be deemed to have been abandoned and the authority hereby granted will automatically terminate on that date.

Please advise the Board of Governors in writing, through the Federal Reserve Bank of New York, when the branch is opened for business.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962, (S-1846) should be followed.)

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

Item No. 2
11/21/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 21, 1962

Board of Directors,
Dutchess Bank and Trust Company,
Poughkeepsie, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch at 432 South Road (Route 9), in the Hudson Plaza (Unincorporated Area), Town of Poughkeepsie, Dutchess County, New York, by Dutchess Bank and Trust Company, provided the branch is established within six months from the date of this letter. It is noted that you will continue to operate the branch at 423 South Road (Route 9) which is across the street from the branch for which approval is given in this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962, (S-1846) should be followed.)

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

Item No. 3
11/21/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 21, 1962



Mr. Charles J. Scanlon, President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Scanlon:

Confirming discussions which the Board's Division of Examinations has had with Vice President Ross of your Bank, the Board would like to follow the same general arrangement in examining Edge Act Corporations in your district as followed in the New York, Boston, and Philadelphia Districts. Accordingly, until further notice, you are authorized and requested to instruct your examiners to examine Continental International Finance Corporation, Chicago, Illinois, once each calendar year in their capacities as examiners for the Board of Governors.

Examiners conducting examinations of Edge Act Corporations will be furnished with appropriate credentials as Federal Reserve Examiners for the Board of Governors, but any person approved by the Board of Governors as an examiner, assistant examiner, or special assistant examiner for a Federal Reserve Bank may be used to assist in such examinations without specific authorization by the Board. It is requested that, as personnel is needed to conduct such examinations, your Bank Examination Department request the Board's Division of Examinations to furnish appropriate commissions.

Upon completion of reports of examination, you are requested to furnish a copy thereof to the Corporation, at the same time the report is submitted to the Board, and to initiate correspondence with the Corporation with respect to such reports, furnishing copies of all correspondence to the Board's Division of Examinations.

The Board of Governors appreciates the cooperation of your Bank in undertaking this program, and it is assumed that your Bank Examination Department will keep in close touch with the Board's Division of Examinations in carrying out the program. It is understood, of course, that your Bank will bring to the Board's attention at any time any aspect of this program that does not appear to be working out satisfactorily and in the interest of efficiency and appropriate supervision of the institution.

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
11/21/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 21, 1962

Board of Directors,
Continental State Bank,
Alto, Texas.

Gentlemen:

The Federal Reserve Bank of Dallas has forwarded to the Board of Governors your letters of October 10, 1962, and October 25, 1962, together with the accompanying resolution signifying your intention to withdraw from membership in the Federal Reserve System by January 1, 1963, and requesting waiver of the six months' notice of such withdrawal.

In accordance with your request, the Board of Governors waives the requirement of six months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of Dallas of the Federal Reserve Bank stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon. Under the provisions of Section 208.10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date the notice of intention to withdraw from membership was given.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of Dallas.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 5
11/21/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 21, 1962

Board of Directors,
Guaranty Bank & Trust Company,
Gatesville, Texas.

Gentlemen:

The Federal Reserve Bank of Dallas has forwarded to the Board of Governors your letters dated September 19, 1962, and October 12, 1962, together with the accompanying resolution signifying your intention to withdraw from membership in the Federal Reserve System as of December 31, 1962, and requesting waiver of the six months' notice of such withdrawal.

In accordance with your request, the Board of Governors waives the requirement of six months' notice of withdrawal. Upon surrender to the Federal Reserve Bank of Dallas of the Federal Reserve Bank stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon. Under the provisions of Section 208.10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date the notice of intention to withdraw from membership was given.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of Dallas.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 6
11/21/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 21, 1962

CONFIDENTIAL (FR)

Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Hayes:

Reference is made to your letter of October 19, 1962, in which your Bank requests the approval of upward adjustments in the salary structures applicable to the employees at the Head Office and Buffalo Branch.

The Board approves the following minimum and maximum salaries for the respective grades for the various structures effective December 27, 1962.

CLERICAL

Grade	Head Office		Buffalo Branch	
	Minimum Salary	Maximum Salary	Minimum Salary	Maximum Salary
1			\$ 2,392	\$ 3,200
2	\$ 2,730	\$ 3,686	2,649	3,576
3	3,016	4,072	2,960	3,996
4	3,328	4,493	3,308	4,466
5	3,692	4,984	3,693	4,986
6	4,151	5,604	4,114	5,554
7	4,572	6,172	4,573	6,174
8	5,033	6,795	5,067	6,840
9	5,533	7,470	5,617	7,583
10	6,091	8,223	6,240	8,424
11	6,672	9,007	6,881	9,289
12	7,322	9,885	7,604	10,265
13	8,066	10,889	8,427	11,376
14	8,915	12,035	9,351	12,624
15	9,866	13,319	10,411	14,055
16	10,957	14,792	11,637	15,710
	12,221	16,500		

Mr. Alfred Hayes

- 2 -

NON-CLERICAL
Head Office and Buffalo

<u>Grade</u>	<u>Minimum Salary</u>	<u>Maximum Salary</u>
1	\$2,790	\$3,767
2	2,962	3,999
3	3,151	4,254
4	3,370	4,550
5	3,631	4,902
6	3,948	5,330
7	4,322	5,835
8	4,769	6,438
9	5,303	7,159
10	5,923	7,996
11	6,587	8,892

SPECIAL SALARY RANGE FOR PHYSICIANS

	<u>Minimum Salary</u>	<u>Maximum Salary</u>
Physicians	\$7,800	\$10,920

The Board approves the payment of salaries to the employees, other than officers, within the limits specified for the grades in which the positions of the respective employees are classified. All employees whose salaries are below the minimum of their grades as a result of the structure increase should be brought within appropriate ranges by April 1, 1963.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

TELEGRAM
LEASED WIRE SERVICEItem No. 7
11/21/62BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

November 21, 1962

Mills - Minneapolis

Board interposes no objection to rental of Burroughs B-270
equipment referred to in urlet November 12.

(Signed) Merritt Sherman

SHERMAN

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

Item No. 8
11/21/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 21, 1962.

Mr. Charles H. Schimpff, Chairman,
Investment Company Institute,
900 Wilshire Boulevard,
Los Angeles 17, California.

Dear Mr. Schimpff:

This is in response to your letter of September 10, 1962, asking that the Board review certain of its interpretations of section 32 of the Banking Act of 1933, which express the view that an individual is prohibited by that section of the law from serving at the same time as an officer, director, or employee of a member bank and of an open-end investment company. Your letter refers specifically to the interpretations of the Board published in 1941 Federal Reserve Bulletin 399, and 1951 Federal Reserve Bulletin 645.

The position taken by the Board in those interpretations has been reviewed by the Board on a number of occasions in the past at the request of interested persons. One such review was made in 1954-55 at the request of your predecessor organization. However, in the light of your letter the matter has again been considered by the Board.

Section 32, as you know, prohibits interlocking relationships between any member bank and any organization "primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities". A mutual fund is, of course, engaged more or less continuously in the redemption of the stock issued by it and, consequently, it could not well carry on its activities if it did not issue its own stock on a virtually continuous basis. The fact that such a company issues only its own shares and is not engaged in other activities of the kind described by the statute is not, of course, a relevant consideration; nor is it relevant that the stock is sold to the public through independent organizations with the result that the company derives no direct profit from such sales.

Your letter compares public utilities with mutual funds in that the former may frequently be obliged to issue their own securities

Mr. Charles H. Schimpff

-2-

in order to expand their operations. The Board believes, however, that public utility companies cannot fairly be compared in this respect with mutual funds since, in the normal case, a public utility is primarily engaged in producing and selling the utility involved and the issuance of its own stock does not constitute one of its primary functions.

For the reasons indicated, the Board continues to be of the opinion that the ordinary open-end investment company must be regarded as an organization of the kind described in section 32 of the Banking Act of 1933.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

UNITED STATES OF AMERICA

Item No. 9
11/21/62

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

 In the Matter of the Application of
 WALKER BANK & TRUST COMPANY
 for approval of merger with
 First National Bank of Price

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 Walker Bank & Trust Company, Salt Lake City, Utah, for the Board's prior approval of the merger of that bank and First National Bank of Price, Price, Utah, under the charter and title of the former. As an incident to the merger, the main and only office of the latter bank would be operated as a branch of the former bank. 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,

-2-

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 21st day of November, 1962.

By order of the Board of Governors.

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

Voting against this action: Governor Robertson.

Absent and not voting: Governor King.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 10
11/21/62

APPLICATION BY WALKER BANK & TRUST COMPANY
FOR APPROVAL OF MERGER WITH
FIRST NATIONAL BANK OF PRICE

STATEMENT

The Walker Bank & Trust Company, Salt Lake City, Utah ("Walker"), with deposits of \$180.3 million,* 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 the First National Bank of Price, Price, Utah ("Price Bank"), with deposits of \$7.3 million.* The banks would merge under the charter and title of Walker, which is a State-chartered member bank of the Federal Reserve System, and as an incident to the merger, the main and only office of Price Bank would be operated as a branch of the resulting bank, increasing the number of its offices from thirteen to fourteen.

Under the law, the Board, as to each of the banks involved, is required to consider (1) its financial history and condition, (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 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

* As of March 26, 1962.

toward monopoly). The Board may not approve the request unless, after considering all these factors, it finds the transaction to be in the public interest.

For convenience, the first five of these factors may be considered together as "banking factors". The sixth and seventh factors are considered separately.

Banking factors. - The capital structure and financial history and condition of Walker are regarded as generally satisfactory, and the condition of the resulting bank should also be satisfactory. Price Bank, on the other hand, has suffered during recent years from the effects of apparently irreconcilable differences of opinion between two groups of shareholders who together own the controlling interest in the bank. These differences have been responsible for deterioration in the bank's general condition, and have made it very difficult for the Board of Directors to agree on management policies for the bank. While the differences continue, it would be almost impossible to attract successor management. Management of Walker is regarded as highly capable, and will be able to attract satisfactory officers, as well as to maintain sound and progressive policies at Price Bank. The prospects for earnings of Walker are satisfactory, and the prospects for the remaining bank should be equally so. Walker is the only subsidiary in Utah of Western Bancorporation, which has 24 subsidiary banks in 11 western States holding aggregate deposits of \$5,277 million. There is no evidence that the corporate powers of the banks are, or would be, inconsistent with the Federal Deposit Insurance Act.

Consideration of the banking factors, therefore, lends some support for approval of the merger.

Convenience and needs of the communities to be served. -

Walker's head office and five of its branches are located in Salt Lake City, which has a population of approximately 190,000 and is a principal financial, commercial, and industrial center for the region. Walker also operates four branches in four communities elsewhere in Salt Lake County, which has a population of 383,000, as well as a branch in Provo which serves Utah County, with a population of 107,000, and a branch in Logan which serves Cache County, with a population of 36,000. Carbon County, of which the city of Price is the county seat, is separated from Salt Lake City and the central Utah valley by the Wasatch mountain range. By road, the two cities are 121 miles apart. Walker's nearest branch is 67 miles from Price.

Coal mining, cattle raising, and the growing of sugar beets are the principal economic pursuits in Carbon County and adjoining Emery County, which together form a natural trade and economic area. There are three banks now serving the two-county area, Price Bank, the Carbon Emery Bank (also located in the city of Price), and the Helper State Bank, which is located in the town of Helper, seven miles north of Price, and is affiliated with Price Bank through common stock ownership. Real estate loans make up more than half the total loans in each of the three banks, and it appears that the Director of the Federal Housing Administration for the State of Utah has expressed the need for an active and qualified FHA Title I and Title II lender in the Price

-4-

area to satisfy present demands. Reportedly, such financing has been obtained from lenders outside the area, and the resulting bank, it is alleged, would be more active in this field of lending in Carbon and Emery Counties. None of the Carbon County banks now offer trust services, and it is expected that the resulting bank will offer trust services in Price.

It also appears that Price Bank has found it necessary in recent years to place a greater portion of large line paper with other banks than it was able to retain for itself. Much of this paper was placed in participation lines with the other two banks in Carbon County, and there is no reason to suppose that this practice would not be continued if the Board's permission for the merger were refused. However, it seems probable that some advantage will accrue to the community from having a bank available with a larger lending limit.

On the whole, then, the convenience and needs of the city of Price and of the two-county area generally should be somewhat better served, if not greatly, as a result of the proposed merger.

Competition. - There is no existing competition between Walker and Price Bank. At the present time, Walker has some trust business in Carbon County, but since Price Bank has had no plans for establishing a trust department, and would probably not do so if it remained independent, there would appear to be no diminution in potential competition as a result of the merger.

Early this year, the Board denied the application of First Security Corporation, Salt Lake City, Utah ("First Security"), pursuant

to section 3(a) of the Bank Holding Company Act of 1956 (12 U.S.C. § 1842(a)), for prior approval of the acquisition by First Security of all the voting stock of the Carbon Emery Bank, Price, Utah (1962 Federal Reserve Bulletin, page 295). If the application had been approved, First Security had planned to operate the Carbon Emery Bank as an office of First Security Bank of Utah, Walker's largest competitor in Salt Lake City and elsewhere.

The Carbon Emery Bank is the strongest bank in the two counties, the ninth largest in the State, and the only bank in the State with a head office south of Salt Lake City which had total deposits, at June 30, 1961, in excess of \$10 million. First Security, as of December 31, 1960, already controlled two banks in Utah, operating 43 banking offices in 16 of the 29 counties in the State, representing 36 per cent of the banking offices in the State, and having 32 per cent of the total resources and 31 per cent of the total deposits of all banks in the State.

In denying the application under the Bank Holding Company Act, the Board concluded that even though acquisition of the Carbon Emery Bank would not have resulted in a substantial percentage increase in the total resources of First Security's system, the introduction of that system into Carbon County "would result in a degree of dominance that would endanger the future competitive ability and growth potential of the area's remaining banks." Nor would this dominance have been offset, the Board held, by any significant increase in benefits to the communities and area concerned, or improvement in the banking factors. Carbon Emery was

already a strong, well-managed bank, meeting on an adequate and indeed vigorous basis most of the needs of its area. While First Security alleged that a problem existed as to management succession, there was nothing to show that acquisition by the holding company was the only practicable remedy.

The former proposal would have united a vigorous bank, the strongest in the area, with a holding company system which had already achieved a predominant position within the State, with only the promise of a relatively insignificant increase in benefits to the banks, the communities, and the areas concerned as a result of the acquisition. On the other hand, the present proposal would unite a substantially weaker bank, which has experienced serious management problems as to which there appears to be no other viable solution, with a bank which is until the present represented in only three of 29 counties in the State, and whose proportion of total banking deposits in Utah is 20.5 per cent and of total loans for the State is 17.8 per cent, as against 31.9 per cent and 33.9 per cent, respectively, for First Security.

Moreover, since it is anticipated that the Helper State Bank, hitherto linked to Price Bank through common ownership, would hereafter operate independently of it, and the Helper bank has shown a modest but steady growth in recent years, severing the connection with Price Bank should in fact provide the area involved with an additional choice of banking facilities, and to this extent increase competition.

Summary and conclusion. - It appears that Price Bank will be strengthened in certain respects as a result of the proposed merger, that services to the communities concerned will be somewhat improved, that virtually no competition exists between the merging banks and consequently little or no competition will be eliminated, and that neither the position of Walker Bank in Salt Lake City nor its position in Price, as compared with the present position of Price Bank, will be enhanced to a degree which would damage the competitive position of other banks in the respective communities. In addition, as a result of the merger, there would be three alternative sources of banking facilities in the two-county area, in contrast to two, as at present.

For these reasons, the Board finds that the proposed merger would be in the public interest.

November 21, 1962

DISSENTING VIEWS OF GOVERNOR ROBERTSON

Item No. 11
11/21/62

While I recognize that there may be cases in which a proposed merger between two banks can be justified solely on the basis of management and ownership difficulties (and the resulting condition of the bank to be absorbed), I am not convinced this is one of them.

November 21, 1962

TITLE 12 - BANKS AND BANKING

Item No. 12
11/21/62

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. Q]

PART 217 - PAYMENT OF INTEREST ON DEPOSITS

Interest Rate on Time Deposits of Foreign Central Banks
Transferred to Other Persons or Organizations

§ 217.127 Interest Rate on Time Deposits of Foreign Central Banks
Transferred to Other Persons or Organizations.

(a) As amended by the Act of October 15, 1962, section 19 of the Federal Reserve Act exempts, for a period of three years, "time deposits of foreign governments, monetary and financial authorities of foreign governments when acting as such, or international financial institutions of which the United States is a member" from the limitations prescribed by the Board of Governors pursuant to that section on the rates of interest payable by member banks on time deposits.

(b) The question has been raised whether the exemption provided by this amendment applies to a certificate of deposit issued to a foreign central bank or other qualified foreign institution where the certificate is thereafter transferred to an individual or "nonqualified" institution prior to its maturity.

(c) Even though such a certificate may have been issued in negotiable form, the law prohibits payment by a member bank of interest at a rate in excess of that prescribed by the Board, unless the certificate represents a "deposit of" an institution of a kind described in

the amendment of October 15, 1962; and the certificate ceases to represent such a deposit if it is transferred to an individual or to an institution of a kind not described in the amendment. To regard such a certificate as falling within the exception provided by the October 15 amendment would, in the Board's judgment, be inconsistent with the intent and purposes of the amendment.

(d) Accordingly, it is the opinion of the Board of Governors that, in such a case, the depository member bank may not pay interest at a rate exceeding the applicable maximum permissible rate under Part 217 prevailing at the date of issue of the certificate for private investors, i.e., individuals and nonqualified institutions. In order to avoid misunderstanding on the part of private investors, it is suggested that the bank include in such certificates an appropriate provision regarding the rate of interest payable to such investors.

(12 U.S.C. 248(i). Interprets or applies 12 U.S.C. 264(c)(7), 371, 371a, 371b, 461)

Dated at Washington, D. C., this 21st day of November, 1962.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

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

Item No. 13
11/21/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 21, 1962

Mr. B. F. Groot, Vice President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Groot:

In accordance with the request contained in your letter of November 8, 1962, the Board approves the appointment of Frank Guthrie McGrath, at present a special assistant examiner, as an assistant examiner for the Federal Reserve Bank of Boston. Please advise the salary rate and the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.