

Minutes for November 23, 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

R

Gov. Balderston

CB

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Gov. Mitchell

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on Friday, November 23, 1962. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Koch, Associate Director, Division of Research and Statistics
Mr. Holland, Adviser, Division of Research and Statistics
Mr. Sammons, Adviser, Division of International Finance
Mr. Landry, Assistant to the Secretary
Mr. Yager, Chief, Government Finance Section, Division of Research and Statistics
Mr. Axilrod, Senior Economist, Division of Research and Statistics
Mr. Keir, Senior Economist, Division of Research and Statistics
Mr. Reynolds, Chief, Special Studies and Operations Section, Division of International Finance
Mr. Goldstein, Economist, Division of International Finance

Money market review. Mr. Keir reported on recent developments in the money market, referring in the course of his remarks to certain tables that had been distributed before the meeting with respect to changes in the composition of the System portfolio of Government securities and the level and structure of interest rates on Government securities. Mr. Axilrod then discussed bank reserves, credit, and the money supply, following which Mr. Goldstein commented on foreign exchange market developments.

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At the conclusion of this presentation all members of the staff except Messrs. Sherman, Kenyon, Molony, 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. Hexter, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Goodman, Assistant Director, Division
of Examinations
Mr. Poundstone, Review Examiner, Division of
Examinations
Mr. Hill, Attorney, Legal Division

Discount rates. The establishment without change by the Federal Reserve Banks of Cleveland, Richmond, Chicago, St. Louis, Minneapolis, and Kansas City on November 21, 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 as Item No. 1, was approved unanimously:

Letter to County Bank of Santa Cruz, Santa Cruz, California, approving the establishment of a branch in the East Cliff Village Shopping Center, Santa Cruz County.

Proposed investment by Manufacturers Hanover International Finance Corporation. There had been distributed a draft of letter to Manufacturers Hanover International Finance Corporation, New York,

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New York, that would grant permission for the purchase of shares of Corporation Financiera de Colombiana de Desarrollo Industrial, Bogota, Colombia.

With respect to a request by Chase International Investment Corporation, New York, New York, for permission to purchase shares of Financiera de la Pequena Empresa, S. A., San Salvador, El Salvador, Governor Robertson had inquired at the meeting on Wednesday, November 21, 1962, whether the institution in El Salvador conducted banking operations. If so, there was the question whether purchase by an Edge Act financing corporation of shares in such an organization should be permitted. As a result of this inquiry, action on the request of Chase International was deferred pending staff investigation.

Since the request of Manufacturers Hanover involved the same question, action on it was deferred pending further investigation.

Messrs. Shay, Goodman, Poundstone, and Hill then withdrew from the meeting.

Application of Central Trust Company Rochester, N. Y.,
(Items 2 and 3). Pursuant to the decision reached at the meeting on November 16, 1962, copies had been distributed of an order and statement with respect to approval of the application by Central Trust Company Rochester, N. Y., Rochester, New York, to merge with Prattsburgh State Bank, Prattsburg, New York.

Without objection, the issuance of the order and statement was authorized. Copies are attached as Items 2 and 3.

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Citizens Bank & Trust Company (Items 4 and 5). Copies had been distributed of a memorandum from the Legal Division dated November 21, 1962, in further reference to termination by Citizens Bank & Trust Company, Park Ridge, Illinois, of its United Security Account Plan. The Board had written to the bank on July 11, 1962, stating that "discontinuance of the plan shall be completed not later than August 27, 1962." Subsequently, the August 27 deadline was extended on two occasions, more recently on October 25, 1962, when the Board extended the period until December 31, 1962, "with the proviso that all depositors under the United Security Account Plan be notified by December 1 that after December 31, 1962, no more checks may be drawn thereunder." On November 9, 1962, Citizens Bank wrote to the Board through Mr. Hodge, General Counsel of the Chicago Reserve Bank, stating that the bank was "disturbed by the proviso" in the Board's letter of October 25.

As noted in the memorandum, the Board's letter of July 11, 1962, was sent in the hope, based on the belief of the Chicago Reserve Bank, that this procedure would result in termination of the United Security Account Plan without the necessity of formal disciplinary action. However, should the Board now insist that United Security Account depositors be notified by December 1 that no more checks could be drawn thereunder after December 31, 1962, and should the bank fail to comply, the Board might have no alternative but to begin a section 9

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proceeding to terminate Citizens Bank's Federal Reserve membership. Because of the seriousness of such a step, the Legal Division suggested that Mr. Hodge, who would return to his office from vacation on November 27, have an opportunity to explore the matter informally with Citizens Bank, at which time he might be in a position to form a judgment as to whether the member bank was engaging in dilatory tactics or was attempting in good faith to discontinue the plan promptly. It was the Legal Division's recommendation, therefore, that no response be made at the present time to Citizens Bank's November 9 letter, but that immediately upon Mr. Hodge's return to his office he be asked to take up the matter informally with the appropriate officials of Citizens. Following such action, should Mr. Hodge be satisfied as to the good faith of the bank's efforts, it might seem advisable, in the opinion of the Legal Division, for the Board to grant additional time for the bank to effectuate termination of the United Security Accounts. On the other hand, should it appear that the bank was not genuinely attempting to comply with the Board's order, it might seem necessary for the Board to issue a "final warning," with the possibility of a proceeding against the bank thereafter under section 9 of the Federal Reserve Act.

There was attached to the memorandum a draft of letter that might be used for reiterating the Board's insistence on termination by December 31 of the United Security Accounts preceded by "sufficient"

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notice to depositors, but not specifying notice by December 1, since that might not be practicable.

After comments by Mr. Hexter on the most recent development in connection with the matter, there followed a discussion during which Governor Mills stated reasons why he felt it would be desirable to avoid the institution of a section 9 proceeding if possible. Governor Shepardson, on the other hand, expressed a somewhat different view, indicating that he felt the Board should be prepared to take whatever action was necessary if it appeared that the member bank was pursuing dilatory tactics and did not intend to discontinue the plan. It was brought out that in any event the present recommendation of the Legal Division was only for an interim handling of the problem and that a final decision was not called for at this time. Reference was made by Mr. Hexter to a letter proposed to be sent to Mr. Hodge requesting his further consideration of the matter, and it was understood that this letter would be sent. A copy is attached as Item No. 4.

Secretary's Note: Mr. Hodge subsequently expressed the opinion that it would be appropriate to send to the member bank a letter in the form of the draft that had accompanied the Legal Division's memorandum to the Board. Accordingly, the letter was transmitted by him to Citizens Bank under date of November 26, 1962. A copy is attached as Item No. 5.

The meeting then adjourned.

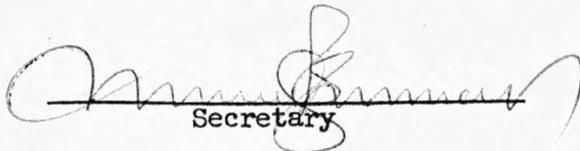
Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

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Memorandum from the Division of Administrative Services recommending acceptance of the resignation of Eleanor W. Yates, Cafeteria Helper in that Division, effective December 14, 1962.

Memorandum from Mr. Landry, Assistant to the Secretary of the Board, dated November 20, 1962, recommending that a visit to the Board's offices be arranged for participants in the Economic Development Institute of the International Bank for Reconstruction and Development on December 12, 1962, the program to include a luncheon in the staff dining room.


Secretary

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

Item No. 1
11/23/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 23, 1962.

Board of Directors,
County Bank of Santa Cruz,
Santa Cruz, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by County Bank of Santa Cruz in the East Cliff Village Shopping Center between 14th and 17th Avenues at East Cliff Drive near the city of Santa Cruz, Santa Cruz County, California, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
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.)

Item No. 2
11/23/62

UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C.

In the Matter of the Application of
CENTRAL TRUST COMPANY ROCHESTER, N. Y.
for approval of merger with
Prattsburgh State Bank

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 Central Trust Company Rochester, N. Y., Rochester, New York, a member bank of the Federal Reserve System, for prior approval by the Board of the merger of that bank and the Prattsburgh State Bank, Prattsburg, New York, under the charter and title of the former. As an incident to the merger, the single office of Prattsburgh State Bank would be operated as a branch of the Central Trust Company Rochester, N. Y. Notice of the proposed merger, in form approved by the Board, has been published pursuant to said Act.

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

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

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

Dated at Washington, D. C., this 23rd day of November, 1962.

By order of the Board of Governors.

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

Absent and not voting: Governor Mills.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 3
11/23/62BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEMAPPLICATION BY CENTRAL TRUST COMPANY ROCHESTER, N. Y.
FOR APPROVAL OF MERGER WITH PRATTSBURGH STATE BANK

STATEMENT

Central Trust Company Rochester, N. Y., Rochester, New York ("Central Trust"), with deposits of \$107.6 million as of June 30, 1962, has applied, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), for prior approval by the Board of the merger of that bank and Prattsburgh State Bank, Prattsburg, New York ("Prattsburgh Bank"), with deposits of \$2 million as of the same date. The banks would merge under the charter and title of Central Trust, which is a member State bank of the Federal Reserve System; and, as an incident to the merger, the single office of Prattsburgh Bank would become a branch of Central Trust, increasing the number of offices of Central Trust from 10 to 11.

Under the Act, the Board is required to consider, as to each of the banks involved, (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 12 U.S.C., Ch. 16 (the Federal Deposit Insurance Act), (6) the convenience and needs of the community to be served, and (7) the effect of the transaction on competition (including any tendency toward monopoly). The Board may

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

Banking factors. - The financial history and condition of Central Trust are satisfactory, and its capital structure is reasonably adequate. The earnings prospects of the bank are favorable, and its management is competent. The financial history and condition of Prattsburgh Bank were regarded as reasonably satisfactory until 1957. Since then the bank has had difficulties resulting largely from poor crop prices that led to deterioration in the asset condition of the bank and from loan administration. The capital structure of Prattsburgh Bank is reasonably adequate and its earnings have been satisfactory, but heavy losses on loans have absorbed a large percentage of earnings. Consummation of the transaction would provide strengthened management and resources in dealing with the difficulties that have faced the bank during recent years. The financial condition, capital structure, earnings prospects, and management of the bank resulting from this transaction would be satisfactory. There is no indication that there is or would be any inconsistency with the provisions of 12 U.S.C., Ch. 16.

Convenience and needs of the community. - Five of the ten offices of Central Trust are in Rochester, the largest city in north-central New York (1960 population 319,000); four of its other five offices are within a seven-mile radius of the city in Monroe County, and one is about twenty-five miles east of Rochester, in Wayne County. Prattsburgh (1960 population 690) is sixty miles south of Rochester, and Prattsburgh Bank is the only banking office in the village.

Consummation of this proposal would affect principally the convenience and needs of the Prattsburg area. The Prattsburgh Bank, as a branch of Central Trust, would offer a number of banking services not now available in Prattsburg, such as trust services, home equipment loans, and various types of business and installment loans.

Competition. - The competitive position of Central Trust would not be appreciably changed by this merger. It is now, and would continue to be after the merger, the fourth largest bank in the city of Rochester. Prattsburgh Bank is over 50 miles from the nearest branch of Central Trust, and there is little, if any, competition between the two banks.

Prattsburgh Bank is regarded as having a possible service area within a 17-mile radius of its office. It ranks fifth in deposits among the eight banking offices within this area and competes to a small degree with them, but it serves principally Prattsburg and its immediate environs.

Summary and conclusion. - Consummation of this proposal should not have a significant effect upon banking competition. If effectuated, the merger would provide the office of Prattsburgh Bank, as a branch of Central Trust, with strengthened management and resources in dealing with the problems confronting the bank. Broader banking services would be offered to the banking public in Prattsburg and vicinity.

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

November 23, 1962

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

Item No. 4
11/23/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



November 23, 1962

Mr. Paul C. Hodge, Vice President,
General Counsel & Secretary,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Hodge:

Enclosed is an undated letter from the Board to Citizens Bank & Trust Company, Park Ridge, Illinois, relating to (1) the date of termination of operations under that bank's United Security Account plan and (2) notification of depositors of such termination.

The Board has adopted the procedure recommended in the enclosed memorandum on this subject, dated November 21, 1962, from its Legal Division. The Board requests that you discuss with such officer or officers of Citizens Bank as you deem appropriate, as promptly as possible, the bank's November 9 letter and subsequent developments, in order to reach a judgment as to whether the bank is attempting in good faith to terminate the plan in a satisfactory manner. Needless to say, the problem would not be solved by a purported discontinuance of operations under the plan if the bank offered to depositors, in place of the plan, an arrangement that differed from it in details of form but not in the essential respects of substance that make the plan objectionable under Regulation Q.

Your conversation with representatives of Citizens Bank may cause you to conclude that the enclosed letter from the Board to that bank is unsuitable to the circumstances disclosed. In that event, of course, the letter should not be dated and mailed, but instead you are requested to telephone the Board's Legal Division and inform it as to the situation and the course of action you may wish to recommend. On the other hand, if you decide that the enclosed letter meets the needs of the situation, you are authorized to have it dated and mailed on behalf of the Board.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures

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

Item No. 5
11/23/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 26, 1962

Board of Directors,
Citizens Bank & Trust Company,
Park Ridge, Illinois.

Gentlemen:

This refers to Mr. Reilly's letter of November 9, 1962, regarding the date of December 1, 1962, specified by the Board in its letter of October 25, 1962 for notification to your customers that operations under the United Security Account plan will be discontinued by December 31, 1962.

Although your bank was informed many months ago that the plan does not comply with the provisions of Regulation Q, and on July 11 was ordered to discontinue its operation, the Board allowed a reasonable time (until August 27, 1962) for this action. At your request, the Board extended this time to October 27, 1962, so that your bank might obtain advice of counsel and thereafter provide customers with a reasonable period to make necessary adjustments of their banking arrangements. On October 25, 1962, again at your request, the Board extended the time for termination of the plan to December 31, 1962, provided depositors were notified by December 1 that no more checks may be drawn under the plan after the end of the year. This further extension was chiefly on grounds of fairness to your depositors, who otherwise might suffer a relatively substantial loss of interest.

As the United Security Account plan must be terminated by December 31, 1962, your depositors should be given a period of notice sufficient to enable them to decide what banking arrangement they care to make after that date.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.