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Minutes for December 19, 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>me</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>R</u>
Gov. Balderston	<u>CB</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. King	<u>[Signature]</u>
Gov. Mitchell	<u>[Signature]</u>

Minutes of the Board of Governors of the Federal Reserve System

on Wednesday, December 19, 1962. The Board met in the Board Room at
9:30 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
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. Connell, Controller
Mr. O'Connell, Assistant General Counsel
Mr. Kiley, Assistant Director, Division of
Bank Operations
Mr. Smith, Assistant Director, Division of
Examinations
Mr. Leavitt, Assistant Director, Division of
Examinations
Mr. Stephenson, Special Assistant, Division
of Examinations
Mrs. Semia, Technical Assistant, Office of the
Secretary
Mr. Bakke, Senior Attorney, Legal Division
Miss Hart, Senior Attorney, Legal Division
Mr. Potter, Senior Attorney, Legal Division
Mr. Entriken, Attorney, Legal Division
Mr. Smith, Senior Economist, Division of
Research and Statistics
Mr. Veenstra, Technical Assistant, Division
of Bank Operations
Mr. Egertson, Review Examiner, Division of
Examinations
Mr. Lyon, Review Examiner, Division of
Examinations
Mr. Smith, Review Examiner, Division of
Examinations

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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 Farmers Savings and Trust Company, Mansfield, Ohio, approving the establishment of a branch at Park Avenue West and Brookwood Way.	1
Letter to the Federal Reserve Bank of Chicago waiving the assessment of a penalty incurred by Central National Bank and Trust Company, Des Moines, Iowa, because of a deficiency in its required reserves.	2
Letter to First State Bank of Marlin, Marlin, Texas, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	3
Letter to the Federal Deposit Insurance Corporation regarding the application of First State Bank of Marlin, Marlin, Texas, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.	4
Letter to Robert Lee State Bank, Robert Lee, Texas, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	5
Letter to Riverside National Bank of Houston, Houston, Texas, granting permission to maintain reduced reserves.	6
Letter to United California Bank, Los Angeles, California, approving an extension of time to establish a branch at 5th Street and Wilshire Boulevard, Santa Monica, operations now conducted at 1401 Third Street to be discontinued simultaneously with the establishment of the new branch.	7

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Assessment on Federal Reserve Banks for first half of 1963.

Copies of a memorandum from Mr. Bass, Assistant Controller, dated December 18, 1962, had been distributed recommending that an assessment of .00288 of the total paid-in capital and surplus of the Federal Reserve Banks as of December 31, 1962, be levied upon the Banks to defray the expenses of the Board for the first half of 1963. Based on estimated capital and surplus of \$1,406,289,000, the rate indicated would produce \$4,050,112.

There being no objection, the proposed assessment was approved unanimously.

Wisconsin bank holding company applications. As a preface to the Board's consideration of several holding company applications on the agenda for this meeting involving institutions in Wisconsin, Mr. Solomon outlined the general features of the banking structure of that State, without specific reference to the particular cases to be considered. There were six bank holding companies operating in the State, with a seventh seeking formation, but among these the three predominant organizations, First Wisconsin Bankshares Corporation, The Marine Corporation, and Marshall & Ilsley Bank Stock Corporation, were built around three key banks in Milwaukee. After citing the percentage of total deposits within the State controlled by these three bank holding companies, he drew comparisons in terms of the control of deposits in the counties in which their subsidiary banks were located, of their relative spread of subsidiaries over the State, and of their

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recent rate of growth. He then reviewed the facts that had formed the background for the Board's denial earlier this year of the applications of Morgan New York State Corporation and First Bancorporation of Florida, Inc., and its approval of the application of United Virginia Bankshares, Inc., and compared those situations with the background of the applications presently to be considered by the Board.

The applications on the agenda for this meeting, involving two of the three bank holding companies that had been the primary subject of Mr. Solomon's remarks, were as follows:

By First Wisconsin Bankshares Corporation, Milwaukee, to acquire 80 per cent or more of the voting shares of Merchants & Savings Bank, Janesville, Wisconsin;

By First Wisconsin Bankshares Corporation to acquire 80 per cent or more of shares of American Bank and Trust Company, Racine, Wisconsin;

By The Marine Corporation, Milwaukee, to acquire 80 per cent or more of shares of The Beloit State Bank, Beloit, Wisconsin.

In addition to the memoranda hereinafter referred to in connection with each of these three applications, there had been distributed a memorandum dated November 15, 1962, from the Banking Markets Unit of the Division of Research and Statistics summarizing the chief economic considerations surrounding the three proposed holding company acquisitions as a group.

Governor Mitchell asked if Mr. Solomon's remarks were intended to convey a suggestion that the three applications should be denied because the holding companies were already large enough, and if Mr. Solomon's attitude toward an application would be different if the

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applicant were Marshall & Ilsley or Marine Corporation rather than First Wisconsin Bankshares, which was by far the largest of the three holding companies. Mr. Solomon replied that his remarks were not meant to suggest denial solely on the grounds of size; the nature of the proposed acquisition would be of significance. If applications contemplated acquisitions of new banks, a different situation would be presented. However, the present applications proposed acquisitions of existing banks of relatively large size in their respective communities, and therefore involved complex considerations. His attitude toward the Janesville application, for example, might have been different to some extent if the applicant were not the largest of the Wisconsin bank holding companies, but that fact did not mean that other considerations were excluded in appraising the situation.

Governor Mitchell, after observing that Mr. Solomon's remarks had dwelt on the relative size of the holding company systems and had used the State as the community to be studied, asked if it was known what proportion of the three large holding company systems' deposits and loans came from outside the State. Mr. Solomon responded that it was probable that the key banks of each of the three holding companies had a substantial amount of out-of-State business.

Governor Mitchell commented that he was somewhat troubled because, as he read the material on the applications, there was implicit in it the idea that there was already enough banking concentration in Wisconsin.

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If that was to be used as a criterion, in his view one had to be concerned with the amount of out-of-State deposit and loan activity engaged in by the holding company groups. He would not object to a line being drawn to indicate a point beyond which further holding company expansion should not take place, but it was not clear to him just where a recognizable line could be drawn.

Mr. Solomon replied that, although it would be difficult to draw a precise line, a general line might be emerging from the decisions of the Board. He noted that he had compared the applications of Morgan New York State Corporation and First Bancorporation of Florida on one side with the application of United Virginia Bankshares on the other side; it might be assumed that a line would fall somewhere between the types of situations involved in those cases.

Governor Mitchell remarked that he did not believe sufficient analytical work to draw a line had yet been done. He then posed a series of questions, to which Mr. Solomon responded, regarding the implications of the latter's reference to a proposal to acquire a dominant bank in a significant community as a possible criterion for disapproval. The tenor of Mr. Solomon's remarks was that holding companies, like large banks seeking to merge, must recognize the problems involved if they proposed to acquire leading banks in significant communities. Where such applications were denied by the Board, the Board's action would in itself communicate a message. On the other

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hand, it would involve an oversimplification to say to a holding company that it could not, under any circumstances, acquire additional existing banks.

Governor Shepardson observed that one feature that seemed to be common to the three applications was the question of ability to take care of the needs of large business concerns in the communities. He asked if he was correct in his impression that the Division of Examinations discounted the validity of that argument entirely. Mr. Solomon responded that while the Division did not discount the argument entirely, it did discount it rather heavily because there was no indication that the businesses in the respective communities were failing to obtain credit accomodation or were experiencing substantial inconvenience. If there was any complaint, it was the complaint of the local banks that business was being bid away from them; the customers were not suffering.

Governor Shepardson stated that the point he had in mind was not whether the customers were being served, but whether, if the local banks were too small to take care of the business of the larger local industries, they were justified in expecting to increase in size sufficiently to handle the business of whatever industrial or business concerns might be domiciled in the community.

Mr. O'Connell commented that almost that exact point had been raised during the oral presentation regarding the Janesville application.

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He was not sure it had been established that facilities existing in Janesville could not handle all local business. If a conclusion could be drawn, it might be that Janesville banks could handle all business arising from their community either alone or on a correspondent basis.

Governor Robertson added that it might also be concluded that a local bank would not necessarily become larger because it was owned by a holding company.

Governor Balderston remarked that it was a debatable question whether a community like Wisconsin should be able to take care of all the banking business within its confines or whether the larger accounts should flow to a financial center such as New York. A banker in St. Paul, Minnesota, had told him of strenuous efforts that had been made to keep that city's banking business at home through agreements to participate in any loan that was too large for one of the local banks. The arrangement reportedly had not worked because the local banks preferred to see business go outside the area rather than share it. However, once a holding company entered the area, it was said, the business in fact stayed at home. It had been suggested to him that the adverse decisions of this Board were in reality building up New York as the financial capital of the country.

Governor Robertson commented that it was his impression that statistics would show that the relative position of New York as a

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financial center had been going down rather than up in the past ten years.

Governor Mills stated that he believed it important to realize that Milwaukee and its satellite communities were really tributary to Chicago, the financial center of the area. There was no significant financial movement northward; rather, Chicago was the magnet. Many Wisconsin industries had outgrown their communities and were doing a national business, and it was to be expected that their banking business would be handled by the largest banks. It seemed clear that the banks proposed to be acquired in the applications before the Board were taking care of the financial needs of the general public in the respective communities. However, there had been considerable discussion about the financing of a relatively few larger concerns that did not have access to sufficient credit locally because of the relatively small size of the local banks. This raised the question whether large credit facilities were the acme of importance of banking or whether services on a local basis to the home community did not outrank the needs of a few large firms that could obtain credit accommodation elsewhere.

Governor Mitchell observed that a number of large Wisconsin firms serving the entire United States with their products were located in smaller communities where local banking facilities were insufficient to serve their needs. The fact that a holding company entered such a

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community did not mean that a local bank would be handling the financing of the large industries; it simply meant that a different set of outside interests would be used. He agreed with Governor Mills that the first obligation of a local bank was to serve local businesses rather than large firms with widespread markets.

Application of First Wisconsin Bankshares (Janesville). In connection with the application of First Wisconsin Bankshares Corporation to acquire 80 per cent or more of the voting shares of Merchants & Savings Bank, Janesville, Wisconsin, there had been distributed memoranda dated July 17 and September 7, 1962, from the Division of Examinations and a memorandum dated September 26, 1962, from the Legal Division. The Division of Examinations' memoranda analyzed the application in detail, especially from the point of view of the factors cited for consideration by the Bank Holding Company Act. The Federal Reserve Bank of Chicago had recommended approval of the application, the Wisconsin Commissioner of Banks had commented adversely, and the Division of Examinations, after balancing all considerations, recommended that the application be denied. The Legal Division's memorandum took 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. An oral presentation with respect to the application was made before the Board on August 7, 1962. The Board considered the application on

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September 28, 1962, but, after extended discussion, deferred a decision on it.

At the Board's request, Mr. Smith (Review Examiner) summarized the circumstances surrounding the application, basing his comments primarily on the detailed analysis contained in the memoranda of the Division of Examinations.

Chairman Martin then called for the views of the members of the Board, beginning with Governor Mills, who stated that he concurred in the recommendation of the Division of Examinations, for the reasons summarized by Mr. Solomon in terms of the broader considerations involved and by Mr. Smith in terms of the individual situation.

Governor Robertson stated that he also concurred.

Governor Shepardson expressed concern about all three of the applications because of the point he had raised earlier in the discussion. While bank customers in the three communities apparently were being served adequately, to him there was a real question whether industrial concerns that grew beyond the capacity of their local banks should be forced to go outside the State to obtain financing. He did not doubt that they could get the necessary service elsewhere, but he was troubled by the basic question whether the financing needs of large industries should continue to flow to New York and Chicago, or whether it was more desirable to build up other financial centers around the country so that the credit needs of most industries could be satisfied

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closer to home. He did not believe that the Board had explored this question sufficiently. As to the case under consideration, in his view there were adverse factors on a strictly local basis that could be cited to justify denial. However, he was not prepared to accept the general argument that inclusion in a holding company system did not increase the ability of a local bank to extend credit, particularly if the holding company system had larger resources. There was still a question in his mind as to the best way to meet the financing needs of the large industries in a State as they developed. But in the absence of enough facts to justify taking a firm position on the basis of the question he had raised, he would concur in the Division's recommendation in this particular case.

Governor King commented, with respect to the question raised by Governor Shepardson, that a business with which he was familiar had deliberately sought financing outside its own community because recourse to local financing would open the company's private affairs to local knowledge. As to the Janesville application, he concurred with the Division's recommendation for denial.

Governor Mitchell stated that he would want to make it clear in the Board's statement that denial of the application would not necessarily preclude First Wisconsin Bankshares or any other Wisconsin holding company from expanding if it avoided the dominant bank in a community. He was not sure that there was any point to State-wide banking systems in a

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State like Wisconsin, but there was much to be said, in his opinion, for developing the holding companies in the general Milwaukee area, and he would be sympathetic to proposals that would integrate the banking resources in that area to some degree. Subject to the reservation that he would not want the language of the statement supporting the decision to indicate that Wisconsin holding companies were necessarily precluded from further expansion in any circumstances, he would support the recommendation for denial in this case.

Governor Balderston said that he concurred in the recommendation of the Division in this case, although he shared the concern expressed by Governor Mitchell.

Chairman Martin also expressed concurrence with the Division recommendation.

The application of First Wisconsin Bankshares Corporation to acquire 80 per cent or more of the voting shares of Merchants & Savings Bank, Janesville, Wisconsin, was thereupon denied by unanimous vote.

It was understood that the Legal Division would prepare an order and statement for the Board's consideration reflecting this decision.

Application of First Wisconsin Bankshares (Racine). In connection with the application of First Wisconsin Bankshares Corporation, Milwaukee, to acquire 80 per cent or more of the outstanding shares of common stock of American Bank and Trust Company, Racine, Wisconsin, there had been distributed memoranda dated November 30, 1962, from the Division

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of Examinations and December 10, 1962, from the Legal Division. The Division of Examinations' memorandum set forth a comprehensive study of the proposed acquisition and appraised the circumstances of the case in the light of the factors required to be considered under the Bank Holding Company Act. The Wisconsin Commissioner of Banks had not opposed the acquisition, and the Federal Reserve Bank of Chicago recommended approval. However, the Division of Examinations recommended denial, stating that it felt that unfavorable elements with respect to the fifth factor required to be considered by the Bank Holding Company Act, and particularly the concentration of deposits in the three large Wisconsin-based holding companies, with First Wisconsin Bankshares holding the major portion thereof, was such that a further increase in the position of that holding company resulting from the acquisition of a leading bank in a leading city of the State, coupled with the potential of American Bank to increase and entrench its position in relation to smaller banks in the area, outweighed favorable considerations under the fourth factor.

The Legal Division's memorandum stated that, while a decision of either approval or denial could be justified from a legal point of view, it was perhaps fair to say that it would be more difficult to make a legal argument supporting approval, in view of growing holding company concentration, than in the recent Virginia cases or in the earlier stages of holding company development in Wisconsin.

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At the Board's suggestion, Mr. Egertson outlined the principal points developed in the Division of Examinations' memorandum dated November 30, 1962, after which he responded to several questions posed by Governor Mitchell relating to correspondent relationships of American Bank and Trust Company and the service of one of the bank's directors as a director also of the largest bank in Racine. Mr. Egertson also responded to questions regarding American Bank's loan portfolio and its management situation.

Governor Balderston observed that the Wisconsin Commissioner of Banks offered no objection to the Racine application, although he had recommended denial of the Janesville application, and asked what might have been the reason for differentiating. Response was made that it was understood that the Commissioner did not believe that approval of the Racine application would have any material effect on the competitive situation in the City of Racine. Therefore, he was not opposing it although he did oppose State-wide expansion by large bank holding companies.

In further discussion, Governor Mills commented that a question of geography was involved. Racine was so close to Milwaukee as to be almost a suburb, and approval of the application would extend the circle of influence of First Wisconsin Bankshares and its central Milwaukee subsidiary to an adjacent community in a manner inconsistent with the position the Board had taken in resisting applications by First

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Wisconsin Bankshares to acquire existing banks in the Milwaukee area.

Governor Mitchell noted that it looked as if First Wisconsin Bankshares would gain an extremely strong position in Racine if it were to acquire American Bank. The correspondent relation for both American Bank and the largest bank in Racine ran to First Wisconsin National, Milwaukee.

Chairman Martin then called upon the members of the Board for expressions of their positions, in response to which all indicated concurrence with the recommendation of the Division of Examinations.

The application of First Wisconsin Bankshares Corporation to acquire 80 per cent or more of the outstanding shares of American Bank and Trust Company, Racine, Wisconsin, was thereupon denied by unanimous vote. It was understood that the Legal Division would prepare an order and statement for the Board's consideration reflecting that decision.

Application of Marine Corporation (Beloit). In connection with the application of The Marine Corporation, Milwaukee, to acquire 80 per cent or more of the outstanding shares of common stock of The Beloit State Bank, Beloit, Wisconsin, there had been distributed a memorandum from the Division of Examinations dated December 7, 1962, in which the background of the application was explored. The conclusions of the Division with respect to the factors required to be considered under

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the Bank Holding Company Act were that the financial history and condition and the prospects of both the applicant and its proposed subsidiary were satisfactory. The Beloit bank's management was considered satisfactory, and although it might meet future management requirements more readily through association with the holding company, there was no reason to believe the bank could not continue to solve its management problems itself. The Division considered that the fourth statutory factor, convenience, needs, and welfare of the area concerned, lent some, but not strong support for approval. As to the fifth factor, relating to banking concentration, the Division concluded that (1) the unfavorable elements with respect to competition, the public interest, and concentration, when considering all holding companies in Wisconsin; (2) the fact that Marine Corporation would be acquiring by far the largest bank in the City of Beloit and in Rock County, further increasing the sizable holding company concentration in the State; (3) the fact that the State Commissioner of Banks was of the opinion that there would be no marked advantage to management or service of the bank through affiliation with the holding company and recommended disapproval; and (4) the fact that the Federal Reserve Bank of Chicago felt that approval would further increase the Beloit bank's dominant position in the local banking field and increase its competitive advantage over other banks in the city and county without any offsetting beneficial effect on competition in general; all tended

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toward disapproval and outweighed favorable elements found under the other four factors. Therefore, the Division recommended denial of the application.

The State Commissioner of Banks had written to the Board on July 13, 1962, recommending denial, and the Board was required by the Bank Holding Company Act to hold a public hearing. A hearing was held on August 14-15, 1962, the first day's testimony being taken in Chicago and the second day's in Beloit. The Hearing Examiner recommended that the application be approved.

There had also been distributed a memorandum dated December 14, 1962, in which the Legal Division stated that it had reviewed the Division of Examinations' December 7 memorandum and was of the opinion that a decision by the Board either to approve or to deny the application could be sustained upon judicial review, although a denial would, on balance, probably be more easily supported. The memorandum also discussed legal points relating to the material on which the Board's decision must be based in view of the mandatory public hearing. In substance, in reaching its decision, the Board must confine itself to the evidence developed at the hearing.

In response to Chairman Martin's request for staff comments, Mr. Lyon summarized the principal circumstances bearing upon the application, as set forth in detail in the Division of Examinations' memorandum of December 7, 1962.

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Mr. Solomon observed that the Division of Examinations had experienced some difficulty in reconciling the views of the Federal Reserve Bank of Chicago on the two applications that had just been considered and the one now before the Board. It was possible that one consideration influencing the Bank's adverse viewpoint in the Beloit case was the fact that, in addition to being the largest bank in Beloit, The Beloit State Bank had long been considered one of the finest and most aggressive banks in the Chicago District. The Chicago Reserve Bank had considered it almost an ideal bank, and therefore the Reserve Bank had perhaps given little weight to the arguments offered by proponents of the application that the bank's management and services were inadequate.

Governor Balderston then posed a series of questions, to which the staff responded, relating to the relative growth of holding company bank subsidiaries and competing independent banks in Wisconsin. The basis for his questions was material tending to indicate that subsidiary banks of First Wisconsin Bankshares had shown less deposit growth percentagewise, and in some cases dollarwise, than competing banks in the same communities. In the ensuing discussion comment was made that, whereas First Wisconsin Bankshares had not expanded rapidly in recent years, in fact had divested itself of a number of banks at one time, and its subsidiaries may have exhibited less growth than their rivals, that situation might not continue because First Wisconsin

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Bankshares was now under the pressure of aggressive expansion of both Marine Corporation and Marshall & Ilsley. Further comments related to the question of a valid measure of growth, along with community and psychological factors that might influence the shifting of banking business from one type of institution to another.

The members of the Board then stated their views in regard to the application of Marine Corporation, beginning with Governor Mills, who concurred in the recommendation for denial. A factor influencing his opinion was the holding company per se, including its growth and ambitions; it seemed to him that this was a proper point to draw a line. In any such case, however, he presumed that the Board appraised the current situation; that five or ten years later, with the evolution of banking in the State of Wisconsin, it might take a completely different position in regard to a comparable application.

Governors Robertson and Shepardson also indicated concurrence with the Division of Examinations' recommendation.

Governor King stated that his thinking turned upon the type of holding company involved. Marine Corporation was not dominated by a really large bank. First Wisconsin Bankshares' largest bank had \$682 million in deposits, whereas Marine's largest bank had only \$178 million. Total deposits of Marine's banks were about \$320 million, which meant that almost half of the company's total deposit resources were outside of its principal bank. Although the Milwaukee subsidiaries of the

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two holding companies were distinctly unequal, their subsidiaries elsewhere were of approximately the same size. Altogether, he liked Marine's type of system better than that of the other two large Wisconsin bank holding companies. As to the recommendations that the Division of Examinations had made, they were consistent--a consideration that he considered important. He could also see a thread of consistency in the Federal Reserve Bank's recommendations on the three applications and in those of the State Commissioner of Banks. However, the Hearing Examiner had no problem of trying to be consistent with other recommendations because he was dealing with only one application, as to which he had recommended approval. With complete respect for all of the recommendations that had been made, Governor King favored approval of the Beloit application. In his view, the judgment process, if tied too strongly to a desire to be consistent, could result in injustice.

Governors Mitchell and Balderston and Chairman Martin indicated that they concurred with the Division of Examinations' recommendation for denial.

Thereupon, the application of The Marine Corporation, Milwaukee, Wisconsin, to acquire 80 per cent or more of the shares of The Beloit State Bank, Beloit, Wisconsin, was denied, Governor King dissenting. It was understood that the Legal Division would prepare for the Board's consideration drafts of an order and statement reflecting this decision.

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Mr. Guth, Review Examiner, Division of Examinations, entered the room at this point and Mr. Smith (Research and Statistics) withdrew.

Application of Valley Bancorporation. There had been distributed a memorandum dated November 26, 1962, from the Division of Examinations regarding the application of Valley Bancorporation, Appleton, Wisconsin, to become a bank holding company by acquiring 80 per cent or more of the outstanding voting shares of Appleton State Bank, Appleton; Bank of Black Creek, Black Creek; and Northern State Bank, Appleton (a proposed new bank), all in Wisconsin. The memorandum presented a detailed analysis of the proposed holding company system and the place it would occupy in Wisconsin's banking structure. After its study of that situation and of the bearing upon the proposal of the factors cited for consideration by the Bank Holding Company Act, the Division of Examinations recommended approval of the application. The Federal Reserve Bank of Chicago likewise had recommended approval, and the Wisconsin Commissioner of Banks had indicated that he had no objection to the proposal.

There had also been distributed a memorandum dated December 5, 1962, in which the Legal Division stated that it had no comment on the application except that a decision to deny would appear to be substantially more difficult to support upon judicial review than a decision to approve, particularly in the light of previous decisions of the Board.

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At the Board's request, Mr. Stephenson discussed the salient points involved in the application.

The Chairman then turned to the members of the Board for their views, and Governor Mills stated that he concurred in the favorable recommendation of the Division of Examinations. He felt particularly that in the area involved, which was rather heavily populated and had a number of communities, there were ample alternative sources of credit. Also, affiliation with the proposed holding company organization might place the subsidiary banks in a position of being better able to compete with stronger banks in the area.

Governor Robertson stated that he concurred in the recommendation on the ground that there would be no substantial difference between having the subsidiary banks in a holding company organization and having them operate on a basis whereby they were theoretically independent, but were actually closely related.

The other members of the Board also indicated concurrence in the Division's favorable recommendation.

Thereupon, the application of Valley Bancorporation to become a bank holding company by acquiring stock of the three banks previously referred to was approved unanimously. It was understood that the Legal Division would prepare for the Board's consideration drafts of an order and statement reflecting this decision.

All of the members of the staff except Messrs. Sherman, Kenyon, Molony, Fauver, Farrell, Johnson, Connell, and Kiley then withdrew

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from the meeting and Mr. Sprecher, Assistant Director, Division of Personnel Administration, entered the room.

Reserve Bank budgets for first half of 1963 (Items 8-10).

There had been distributed to the Board a memorandum from the Division of Bank Operations dated December 11, 1962, summarizing the proposed budgets of the Federal Reserve Banks for the first half of 1963. Under the procedure approved by the Board earlier this year, the budgets had been submitted by the Reserve Banks for the first time on a half-year basis. In addition, they had been submitted on the basis of total expenses for functions or departments rather than objects of expenditure, with explanations of substantial changes expected in the budget period as compared with actual experience in the same half of the preceding year. The document presented by the Division of Bank Operations included memoranda summarizing the Division's review and analysis of the budget of each Reserve Bank.

The Reserve Banks had budgeted total expenses of \$104.2 million for the first six months of 1963, which was \$7.4 million (7.6 per cent) more than actual expenses for the first six months of 1962. However, the increase was only \$6.1 million (6.2 per cent) over the current expense rate (expenses for the third quarter of 1962 multiplied by two). At the two Reserve Banks where the rates of increase for the first half of 1963 were highest (Richmond and Philadelphia), the main reason was the acquisition of electronic equipment. The Division of

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Bank Operations stated that no unusual items or unreasonable increases were noted in its review and analysis of the budget material.

In discussing the budgets, Mr. Farrell noted among other things that President Irons of the Federal Reserve Bank of Dallas had included the following comment in his budget letter of November 9, 1962:

"In reviewing this budget, our directors raised a question concerning the necessity for and desirability of submitting semiannual budgets. The view was expressed that duplication of effort was involved by reason of the preparation, review and submission of two budgets a year without any compensating benefits. Moreover, the directors were of the opinion that a budget covering only six months would be likely to present a distorted rather than a logical segregation of the Bank's operating expenses."

The Division of Bank Operations suggested that the Board's letter to President Irons relating to the Dallas Bank's budget include comments on the considerations leading to adoption of semiannual budgets for the Reserve Banks.

Mr. Farrell also noted that President Deming of the Federal Reserve Bank of Minneapolis had expressed the view that it would be preferable, in the budget presentations of the Reserve Banks, if comparisons were made against a current rate of expenses rather than against the like six months of the year preceding the budget period.

In further discussion of the proposed budgets, Governor Mills pointed out that the Reserve Banks had installed electronic check processing equipment in the hope that this would lead to a reduction in the number of employees in the check collection function. However,

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this hope apparently was not being borne out, in view of the rising number of employees allocated to that function.

Mr. Farrell replied that the hope still existed that there would ultimately be an easing of manpower requirements. However, until the Banks began to receive a more sizable number of encoded checks, it was necessary to continue the use of the old-style proof machines. As long as the Banks had to generate the amount of encoding that was necessary at present, they were unable to reduce manpower requirements. On the other hand, some encouraging signs were seen in current developments, for example, at the Philadelphia Bank, where the pilot installation of electronic equipment had been relatively trouble free and the amount of encoding done by the commercial banks in the area was greater than in most other areas.

Governor Mills then inquired concerning the increase in payments by the New York Reserve Bank toward the expenses of the Bergen County and Nassau County check clearing bureaus, to which Mr. Farrell replied that control was exercised on the basis of cost per thousand items. As long as the cost to the Reserve Bank on the basis of each thousand items handled remained below the cost of handling an equivalent number of items at the Reserve Bank, the subsidy seemed worth while. Each year the New York Bank furnished the Board a complete report, together with its recommendation as to whether the arrangements with the bureaus should be continued.

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Governor Mills also inquired concerning whether further attention was being given to Reserve Bank expenditures in the area of membership dues and contributions.

In reply, Mr. Fauver brought out that the new budget procedure did not provide information on expenditures of that type; it would be necessary, if the Board wanted to check, to make a special survey from time to time. There was some staff feeling that after some five years of looking carefully at such expenditures and sending reports to the Reserve Banks, a fair degree of uniformity had been achieved, and that the matter had been pursued about as far as seemed reasonable.

Mr. Farrell supported the view that as a result of the Board's intensive examination over a period of several years the Reserve Bank expenditures had become quite well stabilized, at a nonobjectionable level.

Governor Mitchell suggested that favorable consideration be given to the revision in budget procedure advocated by President Deming. He felt that it had been a mistake to adopt the practice of basing budget comparisons on the similar six-month period of the preceding year. In looking at employee figures, for example, under the present procedure it had to be borne in mind that some portion of the increase had already taken place prior to the budget period.

Governor Balderston expressed agreement, following which the Chairman suggested that the staff consider effecting a revision in

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budget procedure along the lines mentioned, and there was no indication of disagreement with this suggestion.

Mr. Farrell observed, in connection with the proposed budget of the New York Bank, that it included provision for one-half of the estimated cost of expanding the Bank's gold vault facilities, which project was still under consideration by the Board. The New York Bank had indicated, however, that it would be agreeable to capitalizing the expenditure, thus eliminating a question that had existed from the accounting standpoint.

It was understood, in the light of Mr. Farrell's comments, that appropriate comment concerning the proposed gold vault expenditure would be included in the Board's letter to the New York Bank.

Governor Balderston then made certain inquiries regarding increases in personnel and increases in positions in Grade 12 or over at the Reserve Banks, with particular reference to the auditing and examination functions. He recognized that the strengthening of staff and upgrading in the auditing function reflected the concern that had been expressed by the Board regarding the appropriate staffing of this function.

In a discussion of the points raised by Governor Balderston, Chairman Martin and Governor Robertson expressed the understanding, from which no dissent was indicated, that the Board's desire in regard to strengthening of staff resources in the auditing function applied

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likewise to the examining function. Mr. Farrell commented that the budgets pertaining to the examination departments had been reviewed by the Division of Examinations, which had indicated, at least by implication, that the budgets appeared to be in order.

Thereupon, the Reserve Bank budgets for the first six months of 1963 were unanimously accepted, with the understanding that letters would be sent to the Federal Reserve Banks reflecting this action and that the letters to the New York and Dallas Banks would contain comments along the lines indicated at this meeting. A copy of the letter sent to the Federal Reserve Bank of Boston is attached as Item No. 8; and copies of the letters sent to the New York and Dallas Reserve Banks are attached as Items 9 and 10, respectively. The letters sent to the other Banks were similar to the letter sent to the Boston Bank.

All of the members of the staff except Messrs. Sherman, Kenyon, Johnson, and Sprecher then withdrew from the meeting.

Salaries of Presidents and First Vice Presidents. Following discussion of the salary rates proposed by the Boards of Directors of the respective Federal Reserve Banks for the Presidents and First Vice Presidents of those Banks for the year 1963, as summarized in a memorandum from the Division of Personnel Administration dated December 10, 1962, the payment of salaries as follows was approved unanimously:

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<u>Bank</u>	<u>Presidents</u>		<u>First Vice Presidents</u>	
	<u>Name</u>	<u>Salary</u>	<u>Name</u>	<u>Salary</u>
Boston	George H. Ellis	\$35,000	E. O. Latham	\$27,500
New York	Alfred Hayes	70,000	William F. Treiber	40,000
Philadelphia	Karl R. Bopp	40,000	Robert N. Hilbert	27,500
Cleveland	W. D. Fulton	40,000	Donald S. Thompson	25,000
Richmond	Edward A. Wayne	40,000	Aubrey N. Heflin	27,500
Atlanta	Malcolm Bryan	40,000	Harold T. Patterson	27,500
Chicago	C. J. Scanlon	50,000	Hugh J. Helmer	27,500
St. Louis	Harry A. Shuford	35,000	Darryl R. Francis	27,500
Minneapolis	Frederick L. Deming	40,000	A. W. Mills	25,000
Kansas City	George H. Clay	37,500	Henry O. Koppang	30,000
Dallas	Watrous H. Irons	40,000	Philip E. Coldwell	25,000
San Francisco	Eliot J. Swan	40,000	H. E. Hemmings	27,500

Secretary's Note: The action with respect to the proposed salary for Mr. Koppang was taken with the understanding that Governor Mitchell would talk by telephone with President Clay regarding the present and prospective management setup at the Kansas City Bank, and Mr. Koppang's role therein. The Secretary was advised later by Governor Mitchell that he had talked with President Clay and that the points raised had been resolved satisfactorily. Governor Mitchell reported to the Board on his conversation with President Clay at the Board meeting on December 20, 1962.

The meeting then adjourned.

Secretary's Note: On December 18, 1962, Governor Shepardson approved on behalf of the Board the following items:

Memorandum from the Office of the Controller dated December 18, 1962, recommending, in addition to the previous approval of certain other overexpenditures, approval of expected overexpenditures in 1962 budget accounts of certain divisions and offices of the Board.

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

12/19/62

Appointments

David S. Staiger as Economist, Division of Research and Statistics, with basic annual salary at the rate of \$12,845, effective the date of entrance upon duty.

Warren S. Cornett as Chauffeur, Division of Administrative Services, with basic annual salary at the rate of \$4,295, effective the date of entrance upon duty.

Salary increases, effective December 23, 1962

Joseph Dougherty, Assistant Federal Reserve Examiner, Division of Examinations, from \$5,375 to \$5,545 per annum.

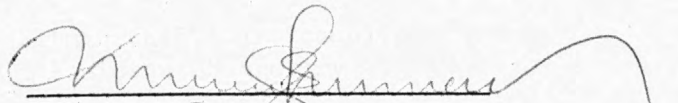
Edwin G. White, Technical Assistant, Division of Bank Operations, from \$8,045 to \$8,310 per annum.

Transfer

Patricia L. Gannon, from the position of Secretary in the Division of Administrative Services to the position of Secretary in the Division of Examinations, with an increase in basic annual salary from \$5,525 to \$5,885, effective December 23, 1962.

Advance of sick leave

Norma L. Neitzey, Secretary, Legal Division, for 26 business days beginning December 18, 1962 (5 hours) and extending through January 28, 1963 (3 hours).


Secretary

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

Item No. 1
12/19/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 19, 1962

Board of Directors,
The Farmers Savings and Trust Company,
Mansfield, Ohio.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by The Farmers Savings and Trust Company at the southwest corner of Park Avenue West and Brookwood Way, Mansfield, Ohio, 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.

(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
12/19/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 19, 1962



Mr. Laurence H. Jones,
Vice President and Cashier,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Jones:

This refers to your letter of November 29, 1962, regarding the penalty of \$1,099.86 incurred by the Central National Bank and Trust Company, Des Moines, Iowa, on a \$1.1 million deficiency in its required reserves for the computation period ended November 21, 1962.

It was noted that through an error at your Bank, the subject bank was informed that its reserve balance on November 19 was \$19.6 million whereas the actual balance was only \$12.0 million; the bank is well known for its rapid and marked fluctuations in demand deposits, frequent borrowings, occasional deficiencies but also occasional large excesses in average reserves; and its record for reserve deficiencies has shown improvement.

In the circumstances the Board authorizes your Bank to waive the assessment of the penalty of \$1,099.86 for the period ended November 21, 1962.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 3
12/19/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 19, 1962

Board of Directors,
First State Bank of Marlin,
Marlin, Texas.

Gentlemen:

The Federal Reserve Bank of Dallas has forwarded to the Board of Governors your letter dated November 15, 1962, together with the accompanying resolution signifying your intention to withdraw from membership in the Federal Reserve System 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. 4
12/19/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 19, 1962

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

Dear Mr. Cocke:

Reference is made to your letter of December 4,
1962, concerning the application of First State Bank of Marlin,
Marlin, Texas, 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. 5
12/19/62



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 19, 1962

Board of Directors,
Robert Lee State Bank,
Robert Lee, Texas.

Gentlemen:

The Federal Reserve Bank of Dallas has forwarded to the Board of Governors your letters dated November 13, 1962, November 20, 1962, and November 21, 1962, together with the accompanying resolution signifying your intention to withdraw from membership in the Federal Reserve System 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
12/19/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



December 19, 1962

Board of Directors,
Riverside National Bank of Houston,
Houston 4, Texas.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Dallas, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Riverside National Bank of Houston, Houston, Texas, to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective as of the date it opens for business.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 7
12/19/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 19, 1962

Board of Directors,
United California Bank,
Los Angeles, California.


Gentlemen:

The Board of Governors of the Federal Reserve System extends to July 1, 1964, the time within which United California Bank, Los Angeles, may establish a branch at the southeast corner of 5th Street and Wilshire Boulevard, Santa Monica, California, provided that branch operations now conducted at 1401 Third Street, Santa Monica, are discontinued simultaneously with the establishment of the above branch.

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
12/19/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 19, 1962.

Mr. George H. Ellis, President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Ellis:

The Board of Governors has reviewed and accepts the budget of the Federal Reserve Bank of Boston for the first half of 1963 as submitted with your letter of November 14, 1962.

Separate advice will be given with respect to the Board's action concerning the 1963 salaries proposed for the various officers of your Bank.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 9
12/19/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 19, 1962

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

Dear Mr. Hayes:

The Board of Governors has reviewed and accepts the budget of the Federal Reserve Bank of New York for the first half of 1963 as submitted with your letter of November 15, 1962.

As you know from your discussion with the Board yesterday afternoon, the Board has not yet reached a decision with respect to the proposal to expand the gold vault at the Head Office of your Bank, for which there was included in your budget a provision of \$235,000 representing about half the cost of the project. However, it is understood from discussions with representatives of your Bank that the cost of this project, if approved by the Board, will not be charged to current expenses but capitalized instead. Accordingly, the Board's acceptance of your budget for the first half of 1963 is with the understanding that current expenses in the budget period will not include any of the cost of expanding the gold vault, except possibly such charges as depreciation incident to capitalization of the project.

Separate advice will be given with respect to the Board's action concerning the 1963 salaries proposed for the various officers of your Bank.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 10
12/19/62

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 19, 1962



Mr. Watrous H. Irons, President,
Federal Reserve Bank of Dallas,
Dallas 2, Texas.

Dear Mr. Irons:

The Board of Governors has reviewed and accepts the budget of the Federal Reserve Bank of Dallas for the first half of 1963 as submitted with your letter of November 9, 1962.

The Board has noted with interest the comments in your letter concerning the feeling of the directors of your Bank about submitting semiannual budgets. When the new budget procedure was adopted, following recommendations of the Subcommittee on Accounting and concurrence therein by the Conference of Presidents, the Board realized that a provision for two budgets each year, instead of one as before, perhaps would not overcome all objections to the former procedure without raising new ones.

As you know, the semiannual budgets have the effect of shortening the period over which activities have to be evaluated for budget purposes, as well as eliminating the need for forecasting expenses for any part of the budget comparison period. The Board had hoped that these advantages would more than compensate for the additional work and overcome any other objections incident to the semiannual budgets.

Separate advice will be given with respect to the Board's action concerning the 1963 salaries proposed for the various officers of your Bank.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.