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Minutes for February 21, 1963

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

R

Gov. Robertson

CCB

Gov. Balderston

LSH

Gov. Shepardson

MSH

Gov. King

Gov. Mitchell

MSH

Minutes of the Board of Governors of the Federal Reserve  
System on Thursday, February 21, 1963. The Board met in the Board  
Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Farrell, Director, Division of  
Bank Operations  
Mr. Solomon, Director, Division of  
Examinations  
Mr. Johnson, Director, Division of  
Personnel Administration  
Mr. Holland, Adviser, Division of  
Research and Statistics  
Mr. Conkling, Assistant Director,  
Division of Bank Operations  
Mr. Kiley, Assistant Director,  
Division of Bank Operations  
Mr. Leavitt, Assistant Director,  
Division of Examinations  
Mr. Mattras, General Assistant,  
Office of the Secretary  
Mr. Young, Senior Attorney, Legal  
Division  
Mr. Hill, Attorney, Legal Division  
Mr. Smith, Senior Economist, Division  
of Research and Statistics  
Mr. Veenstra, Chief, Call Report Section,  
Division of Bank Operations  
Mr. Achor, Review Examiner, Division  
of Examinations  
Mr. Egertson, Review Examiner, Division  
of Examinations

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Items circulated or distributed to the Board. The following

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

Item No.

- Letter to the Federal Reserve Bank of New York agreeing that the service of Merlyn N. Trued, formerly Assistant Vice President of the Bank, as Deputy Assistant Secretary of the Treasury should be regarded as for a purpose deemed to be in the public interest within the meaning of section 5A of the Rules and Regulations of the Retirement System, the resolutions adopted and approved under such section, and Board letter S-1802 of August 4, 1961. 1
- Letter to The Fremont State Bank, Fremont, Michigan, interposing no objection to the exercise of fiduciary powers. 2
- Telegram to the Federal Reserve Bank of San Francisco interposing no objection to the rental, under lease-purchase agreement, of two complements of electronic check-processing equipment (Univac BP I) for the Seattle Branch. 3
- Letter to Wells Fargo Bank, San Francisco, California, approving the establishment of a branch at Power Inn Road and Fruitridge Road, Sacramento. 4
- Letter to Wells Fargo Bank, San Francisco, California, approving the establishment of a branch in Williams. 5
- Memorandum from the Division of Bank Operations dated February 1, 1963, regarding the furnishing of unpublished condition report information for use in the preparation of a doctoral thesis. 6
- Letter to Witch, Inc., Amarillo, Texas, granting a determination exempting it from all holding company affiliate requirements except for the purposes of section 23A of the Federal Reserve Act. 7

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Messrs. Farrell, Johnson, Holland, Conkling, Kiley, and Veenstra then withdrew.

Application of Commercial and Savings Bank of St. Clair. The Commercial and Savings Bank of St. Clair, St. Clair, Michigan, had made application to the Board for permission to consolidate with Citizens State Bank of Emmett, Emmett, Michigan. The Division of Examinations recommended approval of the application in a memorandum dated February 15, 1963, which had been distributed along with other pertinent papers.

Following comments by Mr. Leavitt, the application was approved unanimously, with the understanding that the Legal Division would draft an order and supporting statement for the Board's consideration.

Branch application of Warren Bank. (Item No. 8). There had been distributed a memorandum from the Division of Examinations dated February 19, 1963, in connection with the application of Warren Bank, Warren, Michigan, for permission to establish an in-town branch at Twelve Mile Road and Dequindre Road. This matter had been discussed by the Board on February 5 and February 7, 1963, and it was understood that action on the application would be deferred until representatives of the Warren Bank had met with the Board's staff. On February 18, 1963, Mr. Harry Haulman, President and a director of Warren Bank, and Mr. Harry Bevan, a director of the bank, met with Messrs. Solomon and Leavitt of the Board's staff, and the results of the meeting were summarized in the memorandum that had been distributed.

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Mr. Solomon said that the Examinations Division, which had previously recommended denial of the application, now felt, on the basis of the meeting on February 18, that approval of the application would be warranted. As indicated in the memorandum, the bank's representatives appeared aware of the problem that existed in the bank's weak capital position and appeared sincere in stating that additional steps would be taken, as feasible, to correct the situation.

The Board then approved unanimously a letter granting permission to Warren Bank to establish the in-town branch. A copy of the letter is attached to these minutes as Item No. 8.

Messrs. Hill and Achor then withdrew and Mr. Noyes, Director, Division of Research and Statistics, entered the room.

Application of Union Trust Company of Maryland. The Union Trust Company of Maryland, Baltimore, Maryland, had made application to the Board for permission to merge with Peoples Loan, Savings and Deposit Bank, Cambridge, Maryland. A memorandum from the Division of Examinations dated February 13, 1963, which contained a favorable recommendation, noted that the merger application was favored by the Federal Reserve Bank of Richmond and that the competitive factor report of the Federal Deposit Insurance Corporation was not adverse. The reports of the Department of Justice and the Comptroller of the Currency were adverse.

In the course of his comments on the application, Mr. Leavitt brought out that Union Trust was the third largest bank in the State of

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Maryland, with 11 per cent of the State's total commercial bank deposits, and that the proposed merger would increase this figure to 11.4 per cent. Peoples was the largest bank in terms of deposits in the City of Cambridge, which was also served by two other unit banks and a branch of Maryland National Bank, Baltimore. The stockholders of Peoples bank would experience a dilution of the value of their stock under the terms of the exchange although there would be an increase in the dividend rate. The general condition of both Union and Peoples was satisfactory, although the earnings of Peoples had recently been below average for the area.

Mr. Leavitt also noted that Cambridge was the second city in size on the Eastern Shore of Maryland, a prosperous agricultural area that was becoming increasingly industrialized. The industrialization was expected to accelerate as a result of the recently approved Cambridge Harbor project, which would permit sea-going freighters to enter Cambridge harbor.

Mr. Leavitt expressed the feeling that the industrialization of the area would increase the need for the services of larger banks on a competitive basis. Cambridge already had a branch office of Maryland National Bank, the largest bank in the State, but it was felt that the presence of a second major bank would stimulate greater competition in certain banking services. In this connection, a survey conducted by the Federal Reserve Bank of Richmond indicated that local citizens strongly favored the proposed merger. Mr. Leavitt added that the closest branch

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office of Union Trust to the Cambridge area at the present time was at Trappe, some 7 miles north of Cambridge.

It was noted that the competitive factor report from the Comptroller of the Currency implied that in his view it would be more appropriate to have Union Trust enter the Cambridge area by establishing a de novo branch. However, other sources had expressed the view that there already were excessive banking facilities in Cambridge. Mr. Leavitt also noted that in 1961 the then Comptroller approved entry of Maryland National Bank into the Cambridge area by means of a merger.

Following a general discussion of the case to bring out various points of information, Governor Robertson stated that he opposed approval of the application. He saw no evidence that the credit needs of Cambridge had gone unserved or that credit demands were now greater than the present banks could meet. If further industrial development occurred, the existing banks in the area would grow with the community, and any demand for large amounts of credit could be supplied through the Cambridge branch of Maryland National Bank or through the Trappe branch of Union Trust, 7 miles away. Union Trust could also seek approval of an additional office or offices. According to the record, Peoples bank had been growing and competing satisfactorily in the community. If another large bank came into the community and was no more successful in meeting the competition of the local banks than Maryland National appeared to have been, the result might be that banking needs would not be accommodated as satisfactorily as at present. On the other hand, extreme competition might

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have an adverse effect on the remaining local institutions. Consequently, the record did not show, in his opinion, that the public interest would be promoted by the merger.

The only possible justification that Governor Robertson saw for approval of the proposed merger was the expansion of Maryland National Bank into this area in 1961 through the merger route. In his view, however, there was no justification for engaging in a race of supervisory laxity. He felt that it would be difficult to reconcile approval of the proposed merger with adverse competitive factor reports which the Board had submitted in somewhat comparable cases; the Board's actions should be consistent with the position it adopted in competitive factor reports.

Governor Robertson noted that there had been a strong merger trend in the State of Maryland since the date of the Bank Merger Act, and he felt that approval of the proposed merger might make it difficult to turn down other mergers involving similar sets of facts. The ultimate result would be to concentrate the banking business in Maryland in a few banks, which he did not regard as a desirable development.

Governor Shepardson stated that he favored approval of the merger application on the grounds set forth in the report of the Federal Reserve Bank. In the past, the banking needs of the area apparently had been served adequately. However, a definite change in the nature of the area from an agricultural community into an industrial complex was occurring. According to the Reserve Bank survey, the people of the community felt

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that the proposed merger would increase banking competition, which would help to facilitate the further industrialization of the area.

Governor Mitchell said that the evidence was not sufficient to convince him that the application should be approved. He felt that existing banking facilities were adequate for the moment in Cambridge, and the modest success of the Maryland National branch indicated that the community did not presently have a strong need for the specialized services which large banks offer. He had some reservations about the manner in which the Richmond survey of public opinion in the Cambridge area might have been conducted. Such a survey was relevant if developed on a scientific basis, but he had the impression that it might have contained a bias. Approval of the present application might be justified if the Board took a position that it wanted to permit and accelerate the transformation of the Maryland banking system into a State-wide branch banking system, but the desirability of taking such a position was a debatable point. On the basis of the available record, which did not in his opinion make a strong case for approval, he would deny the proposed merger.

Governor Balderston favored approval of the merger. De novo branching would not be a sound development in an area said to be already overbanked. In such circumstances, since the stockholders of Peoples apparently desired to sell the bank, even at a discount, he saw no clear reason why they should not be allowed to withdraw from the banking

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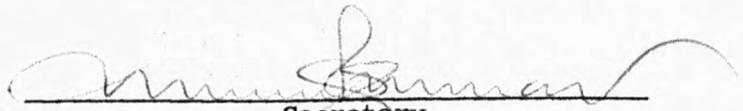
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business. As to question of State-wide branch banking, it seemed to be already an established fact in the State of Maryland, and he did not think that it would be in the interest of Maryland banking in the future if Union Trust, the third largest bank in the State, were left behind in the competitive race.

Chairman Martin indicated his support of the position adopted by the Examinations Division and the Reserve Bank. The Chairman expressed the feeling that independent banking could not be effectively preserved by keeping in the business people who wished to withdraw. In his judgment the Cambridge community was developing quite rapidly, and any initiative and competition in the banking business that would contribute to further development would be a good thing.

The application was then approved, Governors Robertson and Mitchell dissenting, with the understanding that the Legal Division would draft an order and majority statement for the Board's consideration and that a statement or statements reflecting the views of Governor Robertson and Governor Mitchell would also be prepared.

The meeting then adjourned.

  
Secretary



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

673  
Item No. 1  
2/21/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 21, 1963

Mr. Thomas M. Timlen, Jr., Secretary,  
Federal Reserve Bank of New York,  
New York 45, New York.

Dear Mr. Timlen:

Reference is made to your letter of February 8, stating that, for the reasons outlined, the name of Merlyn N. Trued, formerly Assistant Vice President assigned to the Foreign function, has been removed from the rolls of your Bank as of January 27, 1963.

The Board agrees that Mr. Trued's service as Deputy Assistant Secretary of the Treasury, beginning January 28, 1963, is for a purpose deemed to be within the meaning of Section 5A of the Rules and Regulations of the Retirement System, the resolutions adopted and approved under such Section, and letter S-1802 of August 4, 1961.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

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

Item No. 2  
2/21/63

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ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 21, 1963

Board of Directors,  
The Fremont State Bank,  
Fremont, Michigan.

Gentlemen:

This refers to your request for permission to exercise fiduciary powers.

Following consideration of the information submitted, the Board of Governors of the Federal Reserve System will interpose no objection to the exercise by The Fremont State Bank of the fiduciary powers now or hereafter authorized by its charter and the laws of the State of Michigan.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

**TELEGRAM**  
LEASED WIRE SERVICEItem No. 3  
2/21/63BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

February 21, 1963

Swan - San Francisco

Board interposes no objection to rental of two Univac  
check processing systems for Seattle Branch referred to in urlet  
February 8.

(Signed) Merritt Sherman

SHERMAN

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

Item No. 4  
2/21/63

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ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 21, 1963

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

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Wells Fargo Bank in the vicinity of the intersection of Power Inn Road and Fruitridge Road, Sacramento, California, 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.

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Item No. 5  
2/21/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 21, 1963

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

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Wells Fargo Bank in Williams, California, 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

678  
Item No. 6  
2/21/63

Office Correspondence

Date February 1, 1963

To Board of Governors  
From Division of Bank Operations

Subject: Provision of unpublished  
condition report information out-  
side the System.

Mr. Frank Edwards, a Harvard graduate student who held a summer appointment in the Research Division's Banking Markets Unit, has requested that the Board furnish certain unpublished condition report data for use in preparing his doctoral thesis. The thesis was initiated during his stay at the Board last summer and is progressing under the financial sponsorship of the Federal Reserve Bank of Boston. The request was made recently when Mr. Edwards visited the Board to discuss his thesis with members of the Board's staff.

The material requested is readily available on punched cards which were originally prepared for Professor G. L. Bach for his study of the differential impact of monetary policy and were furnished with Board approval on December 9, 1958. It is our understanding that Mr. Edwards intends to use the condition report data in conjunction with data from the 1955 and 1957 loan surveys for a study of relationships between banking structure and bank performance in a number of metropolitan banking markets. These data will be used in statistical compilations to measure various aspects of banking activity in metropolitan areas and figures for individual banks or for groupings of less than three banks will not be shown separately.

It is recommended that the information requested be furnished Mr. Edwards with the usual understanding that no figures for individual banks will be published or disclosed in any way. This case seems to be fairly clear-cut in that no embarrassment is likely to arise and important benefits could accrue to the System from furnishing these data; however, it does involve the furnishing of unpublished individual bank information to an individual outside the System.

*Theodore A. Veenstra, Jr.*  
Theodore A. Veenstra, Jr.  
Chief, Call Report Section.

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

Item No. 7  
2/21/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 21, 1963



Mr. Richard L. Turner, President,  
Witch, Inc.,  
Amarillo, Texas.

Dear Mr. Turner:

This refers to your letter of February 5, 1963, to the Federal Reserve Bank of Dallas, requesting a determination by the Board of Governors of the Federal Reserve System as to the status of Witch, Inc. as a holding company affiliate.

The Board understands that Witch, Inc., a personal holding company, is engaged solely in holding the capital stock of The First National Bank of Levelland, Levelland, Texas; that such Corporation is a holding company affiliate by reason of the fact that it owns almost 90 per cent of the outstanding shares of stock of such national bank; and that such Corporation does not, directly or indirectly, own or control any stock of, or manage or control, any other banking institution.

In view of these facts, the Board has determined that Witch, Inc. is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933 (12 U.S.C. 221a); and, accordingly, the Corporation is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act, and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.

If, however, the facts should at any time indicate that Witch, Inc. might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make further determination of this matter at any time on the basis of the then existing facts. Particularly, should future acquisitions by or activities of the Corporation result in its attaining a position whereby the Board may deem desirable

## BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. Richard L. Turner

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a determination that the Corporation is engaged as a business in the holding of bank stock, or the managing or controlling of banks, the determination herein granted may be rescinded.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Item No. 8  
2/21/63

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 21, 1963

(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 Directors,  
Warren Bank,  
Warren, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Warren Bank, Warren, Michigan, of a branch in the vicinity of the intersection of Twelve Mile Road and Dequindre Road, Warren, Michigan, provided the branch is established within one year from the date of this letter.

While the bank now has under way the sale of \$350,000 of preferred stock and approximately \$150,000 of bank premises which will add some strength to the bank's capital position, the Board of Governors is concerned about the need for further strengthening Warren Bank's capital structure.

In approving this branch the Board acted in the light of the apparent awareness of the bank's directors of the capital problems confronting the bank, as evidenced in discussions with Messrs. Haulman and Bevan and by the plans outlined by them for dealing with this problem through the marketing of sizable amounts of common stock. The Board understands from Messrs. Haulman and Bevan that strenuous efforts are being made to increase the earnings of the bank, to develop a market for its common stock, and that consideration will be given to the flotation of substantial amounts of common stock as promptly as developments in the earnings and market situation make this feasible. In the meantime, it is essential that risks undertaken by this bank be held to levels reasonably consistent with the bank's capital position.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

