

609  
9/62

Minutes for February 27, 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)  
[Signature]

Gov. Mills

Gov. Robertson

R

Gov. Balderston

CRB

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Gov. Mitchell

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, February 27, 1963. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Molony, Assistant to the Board  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Noyes, Director, Division of Research and Statistics  
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. Shay, Assistant General Counsel  
Mr. Sammons, Adviser, Division of International Finance  
Mr. Kiley, Assistant Director, Division of Bank Operations  
Mr. Smith, Assistant Director, Division of Examinations  
Mr. Leavitt, Assistant Director, Division of Examinations  
Mr. Thompson, Assistant Director, Division of Examinations  
Mr. Spencer, General Assistant, Office of the Secretary  
Mr. Hill, Attorney, Legal Division  
Mr. Lyon, Review Examiner, Division of Examinations  
Mr. Noory, Assistant Review Examiner, Division of Examinations  
Mr. Brennan, Personnel Assistant, Division of Personnel Administration

2/27/63

-2-

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on February 26, 1963, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

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

	<u>Item No.</u>
Telegram to the Federal Reserve Bank of Philadelphia interposing no objection to the acquisition of additional electronic check handling equipment.	1
Letter to the Bank of Brazil and the Superintendency of Money and Credit, Rio de Janeiro, Brazil, regarding Federal Reserve System participation in the Seventh Meeting of Technicians of the Central Banks of the American Continent.	2

Application of Commercial and Savings Bank of St. Clair

(Items 3 and 4). Pursuant to the decision reached at the meeting on February 21, 1963, there had been distributed a proposed order and statement reflecting Board approval of the application of The Commercial and Savings Bank of St. Clair, St. Clair, Michigan, to consolidate with The Citizens State Bank of Emmett, Emmett, Michigan.

There being no objection, the issuance of the order and statement was authorized. Copies of the order and statement, as issued, are attached to these minutes as Items 3 and 4.

2/27/63

-3-

Messrs. Shay and Hill then withdrew from the meeting.

Application of Brenton Companies, Inc. There had been distributed a memorandum from the Division of Examinations dated February 20, 1963, and other pertinent papers regarding the application of Brenton Companies, Inc., Des Moines, Iowa, to acquire 60 per cent or more of the shares of First National Bank of Davenport, Davenport, Iowa, a proposed new bank. The recommendation of the Division was favorable.

At the Board's request, Mr. Thompson made a statement regarding the facts of the case and the reasons underlying the recommendation of the Division of Examinations, his comments being based substantially on the information in the February 20 memorandum.

In discussion, Governor Mitchell described the area in which the proposed bank was to be located and expressed the opinion that in view of the characteristics of the area First National would probably develop into more than a neighborhood bank. That factor seemed to make a stronger case for approval.

Governor Mills indicated that he felt the application should be approved, particularly because it would appear to introduce into the area an additional strong and well-managed banking institution. He had wondered about the decision to establish a suburban bank, but he gathered from Governor Mitchell's comments that the proposed location, with its potential industrial possibilities, would result in First National becoming more than a neighborhood type of bank.

2/27/63

-4-

The application was then approved unanimously, with the understanding that an order and statement reflecting this decision would be prepared for the Board's consideration.

Messrs. Thompson, Lyon, and Noory then withdrew from the meeting.

50th anniversary of the Federal Reserve System. There had been circulated a memorandum dated February 21, 1963, from Mr. Sherman to which there were attached copies of letters dated January 30 and February 11, 1963, from Mr. Harry A. Shuford, President of the Federal Reserve Bank of St. Louis, in his capacity as Chairman of the Committee on Bank and Public Relations of the Conference of Presidents. The letters related to the observance of the 50th anniversary of the Federal Reserve System, in which connection certain recommendations had been made to the Committee on Bank and Public Relations by the Subcommittee on Bank and Public Relations and the System Committee on Education and Publications. These recommendations had been transmitted to the Presidents of the respective Reserve Banks and had been approved by a majority of the Presidents. The Board's views were now requested, particularly with respect to a proposal that the Post Office be requested to issue a commemorative stamp during 1964. It was pointed out that a request should be made promptly to the Postmaster General if such a stamp was to be issued in 1964.

In discussion, Governor Robertson stated that while he had no objection to commemorating the 50th anniversary of the System in

2/27/63

-5-

appropriate ways, he did question use of 1964 as the anniversary date. It was his feeling, in which Governor Mills concurred, that it would be more appropriate to observe, by means of a commemorative stamp and otherwise, the fact that the Federal Reserve Act had been signed by President Wilson on December 23, 1913.

There ensued a general discussion during which reference was made, among other things, to the signing of the Act in December 1913, the first meeting of the Federal Reserve Board on August 13, 1914, and the opening of the Federal Reserve Banks on November 16, 1914. The thought was expressed that observance of the 50th anniversary of the System might appropriately begin with a date 50 years from the signing of the Act, which would be December 23, 1963, with the observance continuing during the succeeding 12 months. Attention was called to the difficulty of having commemorative stamps issued, it being pointed out that the Post Office received numerous requests and usually required submission of the design of a proposed stamp as much as 18 months before the date of issue.

The discussion also touched upon the kinds of activities that would seem most suitable for commemoration of the 50th anniversary of the System, and several comments by members of the Board reflected a view that the emphasis should be on projects that would tend to promote public understanding of the System's purposes and functions. There was a suggestion that consideration might be given to making some

2/27/63

-6-

reference to the 50th anniversary in the holiday greeting card or letter sent to the heads of other central banks this year.

After further discussion, it was agreed to endorse the idea of a commemorative stamp, although without overemphasizing the importance of the project. It was also agreed that further consideration would be given to other steps that might appropriately be taken in observance of the 50th anniversary of the System.

Messrs. Noyes, O'Connell, and Sammons withdrew from the meeting at this point.

Authorization for actuarial computations on the Retirement System. There had been distributed a memorandum dated February 15, 1963, from the Division of Personnel Administration recommending that Mr. George B. Buck, Actuary of the Retirement System, be invited to discuss with the Board the report submitted by Professor Dan M. McGill of the Wharton School of Finance and Commerce, University of Pennsylvania, under date of December 5, 1962, entitled "Mortality and Interest Assumptions for the Retirement System of the Federal Reserve Banks." Attached to the Personnel Division's memorandum was a copy of a letter dated February 8, 1963, from Professor McGill advising of the fee that Mr. Buck had indicated he would charge for making certain actuarial computations relating to the Retirement System; the maximum total cost would be \$4,500. It was pointed out that following his meeting with the Board on January 24, 1963, Professor McGill had requested Mr. Buck to inform him of the charges that the latter's organization would make for such computations.

2/27/63

-7-

The computations suggested by Professor McGill included (1) a measurement of the liabilities of the Retirement System if such System were to be terminated; (2) the cost of providing a straight life annuity of \$12 a year for persons retiring at age 65 on the basis of certain interest rate and mortality assumptions; and (3) annual contribution rates for the Reserve Banks and the Board under certain interest rate and mortality assumptions.

The question involved at this point was one of procedure. It was the view of the Personnel Division that it would be desirable as a next step to invite Mr. Buck to meet with the Board. While a discussion with Mr. Buck might result in some or all of the aforementioned computations being regarded as desirable, Mr. Buck might suggest a need for other computations. Such a meeting would also give him an opportunity to explain his position on the recommendations concerning mortality tables and interest rate assumptions that had formed the basis for the Retirement Committee's earlier report and recommendations to the Board of Trustees of the Retirement System.

It developed, however, from discussion at this meeting that the consensus favored a procedure whereby the computations suggested by Professor McGill would be made by Mr. Buck, so that such information would be in hand and could be studied by the Board before a meeting was held with Mr. Buck. It was felt that the availability of these computations would be helpful in reviewing with Mr. Buck the

2/27/63

-8-

recommendations made by Professor McGill in the latter's memorandum of December 5, 1962.

Governor Mitchell dissented from this consensus, it being his view that the Board was in a position to act on the recommendations of the Retirement Committee with respect to mortality tables and interest rates, leaving for subsequent consideration the recommendations of Professor McGill on other features of the Retirement System. He would be willing to meet with Mr. Buck, but he saw no need to defer the meeting pending the availability of the computations suggested by Professor McGill.

In line with the majority view on procedure, it was understood that arrangements would be made for Mr. Buck to undertake the computations suggested by Professor McGill, after which the Board could meet with Mr. Buck on a mutually convenient date. This action on the part of the Board served to authorize such overexpenditure in the 1963 Board budget as might be occasioned by the cost (up to a maximum of \$4,500) of the computations to be made by Mr. Buck.

Services of Professor McGill. In connection with the preceding discussion, Governor Shepardson reported that he had approved on behalf of the Board the recommendation contained in a memorandum dated February 26, 1963, from Mr. Sherman, Secretary of the Board, that the contract for the services of Professor McGill be extended to cover the period January through June 1963, with compensation at the rate of \$200 per day for each day worked for the Board plus necessary expenses incurred by him.

2/27/63

-9-

No objection was expressed by the Board regarding this arrangement, and such budget overexpenditure as might be occasioned thereby was authorized.

Messrs. Leavitt, Spencer, and Brennan then withdrew from the meeting.

Report of examination of Atlanta Reserve Bank. The report on the examination of the Federal Reserve Bank of Atlanta made by the Board's examining staff as of September 7, 1962, had been circulated to the Board, along with the usual accompanying memoranda.

Mr. Smith commented on the information disclosed by the examination, and there appeared to be no matters requiring specific action on the part of the Board at this time. However, there was a brief discussion concerning the premises of the Jacksonville Branch during which members of the Board expressed the view that the question of the need for establishing a Federal Reserve branch office in Miami, Florida, should be explored, at the Board's initiative. It was brought out that the manner in which this question was resolved would appear to have a bearing on the need for expansion of the Jacksonville Branch premises.

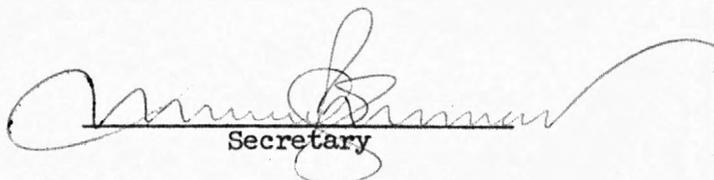
The meeting then adjourned.

Secretary's Notes: Pursuant to the recommendation contained in a memorandum from the Division of Administrative Services, Governor Shepardson today approved on behalf of the Board an advance of sick leave for William R. McDonald, Building Maintenance Clerk in that Division, for the period from February 8 (half-hour) through February 21, 1963.

2/27/63

-10-

Governor Shepardson today noted on behalf of the Board a memorandum advising of the retirement of Ruth A. Brown, Telegraph Operator, Division of Administrative Services, effective at the close of business on February 28, 1963.



Secretary

707

**TELEGRAM**  
LEASED WIRE SERVICE

Item No. 1  
2/27/63

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

February 27, 1963

Hilkert - Philadelphia

Board interposes no objection to rental of third complement of high-speed check handling equipment proposed in urlet February 8, 1963. Board understands your Bank has now decided to rent an IBM 1401-1419 system and replace it with an IBM 1420 system in 1964 under a purchase-option agreement.

(Signed) Merritt Sherman

SHERMAN



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 2  
2/27/63

OFFICE OF THE CHAIRMAN

March 1, 1963.

AIR MAIL

Mr. Ney Neves Galvao, Presidente,  
Banco do Brasil, S. A.,  
and Mr. Julio de Souza Avellar, Director-Executivo,  
Superintendencia da Moeda e do Credito,  
Caixa Postal 495, zc, oo,  
Rio de Janeiro (GB), Brasil.

Dear Messrs. Galvao and Avellar:

Thank you for your letter of January 10, 1963,  
inviting the Federal Reserve System to participate in the  
Seventh Meeting of Technicians of the Central Banks of the  
American Continent, to be held in Rio de Janeiro beginning  
October 14, 1963.

The Board of Governors is pleased to accept this  
invitation on behalf of the Federal Reserve System. Mr. Robert  
L. Sammons, Adviser in the Board's Division of International  
Finance, has been designated to serve as technical secretary  
of the System's delegation to the meeting and will transmit  
to you in the near future suggestions regarding the proposed  
agenda.

In accordance with the request in your letter, the  
System's participation in the October meeting is being brought  
to the attention of all twelve Federal Reserve Banks. While  
this letter may be considered as an acceptance on behalf of the  
System, you will undoubtedly also hear from the Federal Reserve  
Bank of New York, to which I understand a separate invitation  
was forwarded, and possibly from other Federal Reserve Banks.  
At a later date, the Board will furnish you with the names of  
those persons who will compose the System's delegation.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Item No. 3  
2/27/63

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

-----  
 In the Matter of the Application of  
 THE COMMERCIAL AND SAVINGS BANK OF ST. CLAIR  
 for approval of consolidation with  
 The Citizens State Bank of Emmett  
 -----

ORDER APPROVING CONSOLIDATION 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 The Commercial and Savings Bank of St. Clair, St. Clair, Michigan, a State-chartered member bank of the Federal Reserve System, for the Board's prior approval of the consolidation of that bank and The Citizens State Bank of Emmett, Emmett, Michigan, under the charter of the former and with the title of The Commercial and Savings Bank of St. Clair County. As an incident to the consolidation, the sole office of The Citizens State Bank of Emmett would be operated as a branch of The Commercial and Savings Bank of St. Clair County. Notice of the proposed consolidation, 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 consolidation,

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 consolidation 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 27th day of February, 1963.

By order of the Board of Governors.

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

Absent and not voting: Governors Mills and King.

(Signed) Merritt Sherman

---

Merritt Sherman,  
Secretary.

(SEAL)

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

APPLICATION BY THE COMMERCIAL AND SAVINGS BANK OF ST. CLAIR  
FOR APPROVAL OF CONSOLIDATION WITH  
THE CITIZENS STATE BANK OF EMMETT

STATEMENT

The Commercial and Savings Bank of St. Clair, St. Clair, Michigan ("Commercial Bank"), a member State bank of the Federal Reserve System, with deposits of \$12.5 million as of November 30, 1962, has applied, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), for the Board's prior approval of the consolidation of that bank and The Citizens State Bank of Emmett, Emmett, Michigan ("Citizens Bank"), with deposits of \$2.4 million as of the same date. The banks would consolidate under the charter of Commercial Bank and under the title of The Commercial and Savings Bank of St. Clair County. As an incident to the consolidation, the sole office of Citizens Bank would become a branch of the resulting bank, increasing the number of offices of Commercial Bank from one to two.

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, and the capital structure of each bank are satisfactory. The earnings prospects of Commercial Bank are favorable. Consummation of the transaction would provide a basis for improved earning power to what has been the operation of Citizens Bank, the earnings prospects of which are only fair.

Management of Commercial Bank is regarded as experienced and well qualified. Effectuation of the proposal would add management strength to the banking operation in Emmett and would solve the management problem that recently arose with the death of the principal executive officer of Citizens Bank.

The resulting bank, which would be under the management of Commercial Bank, would have a sound financial condition, an adequate capital structure, and favorable earnings prospects.

There is no indication that the corporate powers of the banks are, or would be, inconsistent with 12 U.S.C., Ch. 16.

Convenience and needs of the communities. - The single office of Commercial Bank is the only bank in St. Clair (1960 city population 4,500; service area population 15,000). St. Clair, which is about fifty

miles from Detroit, is situated on the west bank of the St. Clair River, part of the international boundary between Canada and the United States. Port Huron (1960 population 36,100), the seat of St. Clair County, is twelve miles north of St. Clair. The service area of Commercial Bank encompasses a section west of the St. Clair River that lies in a semi-circular area extending five to nine miles distance from St. Clair.

The sole office of Citizens Bank is the only bank in Emmett (1960 village population 283; service area population 5,000). Emmett, which is also in St. Clair County, is twenty-one miles northwest of St. Clair and nineteen miles west of Port Huron. The service area of Citizens Bank extends in a radius of six to nine miles from Emmett.

Consummation of the proposal would have no effect on the convenience and needs of St. Clair. While there does not appear to be strong need for additional banking services in Emmett, the resulting bank expects to meet such demand for additional services as there may be in that area.

Competition. - The service areas of Commercial Bank and Citizens Bank do not overlap, and there is little, if any, competition between the two banks.

An independent bank in Port Huron and the Port Huron branches of a large bank in Lansing, Michigan, dominate banking competition in St. Clair County. The proposed transaction would consolidate the smallest with the third largest of nine banks within the combined service areas of the two participating banks. Commercial Bank's proportionate

share of bank loans and of deposits of individuals, partnerships, and corporations in the combined service areas would increase by 1.5 per cent and 2.0 per cent, respectively. The bank would continue to be third largest in the area, holding about 12 per cent of deposits in the combined service areas.

The proposed transaction would not have significant effect on banking competition in any section of St. Clair County.

Summary and conclusion. - Consummation of the proposal would solve the management and earnings problems existing at Citizens Bank. While there appears to be little need for increased banking services in Emmett, any demand therefor would be met by the resulting bank. Consummation of the consolidation would have a negligible effect on competition in the area.

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

February 27, 1963.