

Minutes for March 1, 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	<u>(M)</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>[Signature]</u>
Gov. Balderston	<u>CCB</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. King	<u>[Signature]</u>
Gov. Mitchell	<u>UM</u>

Minutes of the Board of Governors of the Federal Reserve System on Friday, March 1, 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. Young, Adviser to the Board and Director, Division of International Finance
Mr. Molony, Assistant to the Board
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Noyes, Director, Division of Research and Statistics
Mr. Koch, Associate Director, Division of Research and Statistics
Mr. Brill, Adviser, Division of Research and Statistics
Mr. Holland, Adviser, Division of Research and Statistics
Mr. Solomon, Associate Adviser, Division of Research and Statistics
Mr. Furth, Adviser, Division of International Finance
Mr. Hersey, Adviser, Division of International Finance
Mr. Mattras, General Assistant, Office of the Secretary
Mr. Morgan, Editorial Specialist, Board Members' Offices
Mr. Eckert, Chief, Banking Section, Division of Research and Statistics
Mr. Yager, Chief, Government Finance Section, Division of Research and Statistics
Miss Dingle, Senior Economist, Division of Research and Statistics
Mr. Bernard, Economist, Division of Research and Statistics
Mr. Goldstein, Economist, Division of International Finance

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Money market review. There were distributed tables relating to the current Treasury advance refunding; total official and System market purchases of coupon issues in relation to dealer sales; monetary developments during the four-week period ending February 27, 1963; and short-term claims on "foreigners" of 37 large U. S. non-bank corporations as of November 30, 1962.

Mr. Bernard reported on recent developments in the Government securities market, with emphasis on the advance refunding by the Treasury. Miss Dingle discussed changes in the money supply, bank reserves, and other banking statistics, after which Mr. Goldstein commented on recent foreign exchange market developments.

Mr. Young then reported on the meeting he had recently attended of Working Party 3 of the Economic Policy Committee of the Organization for Economic Cooperation and Development which was held in Paris, France. It was understood that Mr. Young would make a similar report to the forthcoming meeting of the Federal Open Market Committee.

All members of the staff except Messrs. Sherman, Kenyon, Fauver, Noyes, Brill, and Mattras then withdrew and the following entered the room:

Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Shay, Assistant General Counsel
Mr. Leavitt, Assistant Director, Division of Examinations
Miss Hart, Senior Attorney, Legal Division
Mr. Potter, Senior Attorney, Legal Division

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Discount rates. The establishment without change by the Federal Reserve Banks of New York, Cleveland, Richmond, St. Louis, Chicago, Minneapolis, Kansas City, and Dallas on February 28, 1963, of the rates on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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:

- | | <u>Item No.</u> |
|---|-----------------|
| Telegram to the Federal Reserve Agent at Richmond authorizing the issuance to The First Virginia Corporation, Arlington, Virginia, of a limited permit to vote its stock of Richmond National Bank and Trust Company, Richmond, Virginia. | 1 |
| Letter to The Marine Trust Company of Western New York, Buffalo, New York, approving the establishment of a branch at 238 Main Street. | 2 |
| Letter to Southern Arizona Bank and Trust Company, Tucson, Arizona, approving the establishment of a branch in a shopping center at 24th Street and Camelback Road, Phoenix. | 3 |

Report on competitive factors (Norfolk-Charlottesville, Virginia).

There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of National Bank of Commerce of Norfolk, Norfolk, Virginia, and Peoples National Bank of Central Virginia, Charlottesville, Virginia.

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In discussion of the matter, Messrs. Solomon and Leavitt brought out that this was regarded by the Division of Examinations as a difficult case on which to draw conclusions concerning the competitive effects. The banks involved were widely separated and there appeared to be little direct competition between them, but each was the dominant bank in its area. The Division, on further consideration, would suggest including at the appropriate point in the body of the report, and also in the conclusion, language indicating that both banks represented alternative sources of banking services for medium-size businesses that could be accommodated beyond their local area but did not have access to national credit markets. If that were done, the last sentence of the conclusion-- which stated that the union of these two banks would have an adverse effect on competition--might be dropped.

Governor Mills said that he thought the general conclusion, as stated, was correct, but in his view the additional language proposed to be included was rather farfetched. The banks were widely separated, and the information presented on other available banking facilities was so convincing that it would seem to stretch the point if it were suggested strongly, as an adverse consideration, that borrowers would be deprived of an alternative source of banking services. However, he would not object to the last sentence in the conclusion, as drafted. He suspected that the two consolidating banks would try to fill the gap between their present service areas.

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As the discussion proceeded, Governor Mitchell suggested that the conclusion be slanted toward advancing the opinion that the adverse competitive effects of the proposed consolidation would be more potential than immediate. There were also certain other suggestions for minor changes in the language of the conclusion. Thereupon, Governor Mills' reservations regarding the additional language proposed for insertion by the Division of Examinations having been noted, the report was approved for transmittal to the Comptroller in a form in which the conclusion read as follows:

The nearest offices of National Bank of Commerce of Norfolk and Peoples National Bank of Central Virginia are 143 miles apart and are not directly competitive. However, Commerce National attracts correspondent business from a wide region and solicits accounts from large national and regional corporations that operate in the service areas of both banks, and both banks represent alternative sources of banking services for medium size businesses which can be accommodated beyond their local area but which do not have access to national credit markets.

This proposed consolidation would unite the State's third and seventh largest banks, which are now the dominant banks in their respective areas, and the continuing bank would be the second largest bank in Virginia with an increased geographic sphere of influence. Further, the proposal represents the continuance of a trend towards State-wide concentration of commercial banking resources by way of mergers and bank holding company acquisitions. The union of these two banks would in this sense have a potentially adverse effect on competition.

Application of Union Trust Company of Maryland (Items 4-7).

Pursuant to the decision reached at the meeting on February 21, 1963, Governors Robertson and Mitchell dissenting, there had been distributed

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a proposed order and statement reflecting the Board's approval of the application of Union Trust Company of Maryland, Baltimore, Maryland, to merge with Peoples Loan, Savings and Deposit Bank, Cambridge, Maryland. Dissenting statements of Governor Robertson and Governor Mitchell also had been distributed.

The issuance of the order and statements was authorized. Copies of the order, the majority statement, and the dissenting statements of Governors Robertson and Mitchell are attached to these minutes as Items 4 through 7.

Mr. Shay, Miss Hart, and Mr. Potter withdrew at this point and the following entered the room: Mr. Molony, Assistant to the Board; Mr. Dembitz, Associate Adviser, Division of Research and Statistics; and Mr. Partee, Chief, Capital Markets Section, Division of Research and Statistics.

Bank loans collateralized by stocks and bonds (Item No. 8).

There had been distributed a memorandum from the Division of Research and Statistics dated February 27, 1963, submitting a preliminary draft of staff report on a recent survey of member bank loans collateralized by stocks and bonds.

The memorandum pointed out that the survey in question was conducted in 1962 partly at the request of the Securities and Exchange Commission, which planned to use the information in connection with the Commission's special study of the securities market. It was understood

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that the Commission expected to publish the statistical summary of the survey as an appendix item to a report to Congress, possibly recommending new legislation in the area of securities market credit. Material obtained in the survey would also provide the basis for an article in an early issue of the Federal Reserve Bulletin.

The survey sought to develop information about the volume and characteristics of loans subject to Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Registered Stocks, and of security loans exempt from the present Regulation because they were made to carry unlisted stocks or convertible bonds or were for purposes other than purchasing or carrying securities. It was felt that information of this nature would be useful in determining the System's position with respect to any proposals to extend the scope of the Regulation.

The survey results, blown up to universe proportions, indicated that there were \$10.9 billion in loans secured wholly or partly by stocks and bonds as of September 26, 1962. Seven-eighths of the dollar volume of such loans was collateralized principally by stock, but despite the predominance of stock collateral only about \$900 million of the \$10.9 billion in loans appeared to be subject to Regulation U. Even among loans secured principally by listed stock and mutual fund shares, only 11 per cent appeared to be subject to the Regulation, the bulk being exempt as "non-purpose" loans.

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In commenting on the matter, Mr. Noyes brought out that the Board was committed to transmit a report of the results of the survey to the Securities and Exchange Commission. This raised the question whether the Board would want to express any views in the letter of transmittal. Based on discussion between members of the Board's staff and the staff of the Commission, it appeared that the latter might suggest to the Commission that it recommend in its forthcoming report to the Congress that the present statutory authority be expanded in two ways: (1) to cover credit extended on unlisted securities, to a large extent, as well as listed securities; and (2) to cover any loan collateralized by securities falling within the broadened definition, with the Board given authority to provide exemptions in its discretion. Therefore, if the Board had reservations, it might want to express them in transmitting the report on the survey to the Commission.

It developed from further discussion that the Board would favor, as it had in the past, an expansion of statutory authority to regulate stock market credit extended on unlisted as well as listed securities. Accordingly, it was understood that comment would be made to such effect in the letter transmitting to the Securities and Exchange Commission the results of the recent Federal Reserve survey. However, when it came to the question of broadened statutory authority that would subject to the margin regulations all loans collateralized by both listed and unlisted securities, despite the purpose of such loans, it developed that the

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Board would like to consider the matter further. Therefore, the staff was requested to prepare a memorandum on this phase of the subject for the Board's consideration.

A copy of the letter subsequently sent to the Securities and Exchange Commission is attached as Item No. 8.

All members of the staff except Mr. Sherman then withdrew from the meeting.

50th anniversary of the Federal Reserve System. Chairman Martin referred to discussions that had taken place in connection with observation of the 50th anniversary of the Federal Reserve System, such as the January 30 letter from Mr. Shuford, Chairman of the Presidents' Conference Committee on Bank and Public Relations, and the report of a Subcommittee of the Presidents' Conference on the subject. With reference to the suggestion that there be a brief history prepared regarding the Federal Reserve System, he had come to the conclusion that it would be desirable to designate Mr. Molony of the Board's staff to work on the assembling of material for such a history and preparing a draft of the history that had been suggested for this purpose. The Chairman noted that this would provide a means for assembling of material for the entire System and that it would not preclude the use of a consultant such as an outside historian later on if that seemed desirable. His thought was that Mr. Molony should be freed from his other work for a period of six months to proceed with this project. He had discussed the matter with him, and

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Mr. Molony had indicated that he would be willing to undertake the task and could commence the work on approximately March 15.

During a discussion of Chairman Martin's proposal in which the members of the Board indicated their approval of his suggestion, Governor Shepardson inquired whether it would be desirable to inform the Federal Reserve Banks of the designation of Mr. Molony for the preparation of the over-all System history. This would include an indication that whatever the Reserve Banks did should not duplicate the work for the System as a whole but should be related to observation of the anniversary of the System as regards their individual Banks or districts.

Governor Robertson suggested that such a communication should also invite the Reserve Banks to supply information to assist Mr. Molony in the System project, and it was understood that a draft of a communication of the type suggested would be prepared.

United Security Account Plan (Item No. 9). The Secretary referred to a memorandum from Mr. Hexter, Assistant General Counsel, dated February 21, 1963, that had been circulated to the Board transmitting a copy of the letter sent under date of February 5, 1963, over the signature of John MacArthur, Chairman of the Board, Citizens Bank & Trust Company, Park Ridge, Illinois, to United Security Account holders advising them that certain changes were being made in the plan. Mr. Hexter's memorandum indicated that with these changes the plan apparently would no longer conflict with the Board's Regulation Q,

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Payment of Interest on Deposits, or with section 19 of the Federal Reserve Act. As indicated in Mr. Hexter's memorandum, a letter to all Federal Reserve Banks had been prepared and would be transmitted to them with a copy of Mr. MacArthur's letter of February 5, for the purpose of informing the Reserve Banks of the action taken by the member bank.

A copy of the letter to the Reserve Banks is attached as Item No. 9.

The meeting then adjourned.

Secretary's Note: Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the following actions relating to the Board's staff:

Appointment

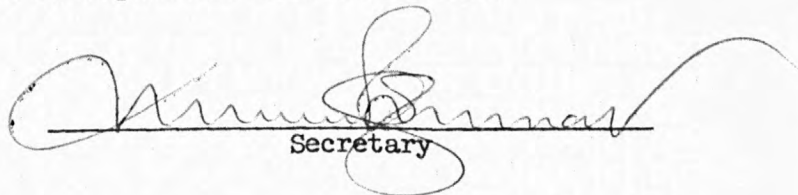
Cornelia J. Motheral, to work in the Division of Research and Statistics for a six-month period on a temporary contractual basis, with compensation at the rate of \$28 per day for each day worked for the Board, effective the date of entrance upon duty.

Salary increase

Charles M. Wrenn, from \$4,250 to \$4,565 per annum, with a change in title from Operator, Tabulating Equipment, to Digital Computer Systems Operator, Division of Data Processing, effective March 3, 1963.

Outside activity

Thomas Bryant, Cafeteria Laborer, Division of Administrative Services, to work part-time at a gasoline service station.


Secretary

TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

March 1, 1963

HYDE -- RICHMOND

KECEA

- A. The First Virginia Corporation, Arlington, Virginia.
- B. Richmond National Bank and Trust Company, Richmond, Virginia.
- C. None.
- D. At any time prior to June 1, 1963, to act upon proposals to increase and change the par value of the capital stock of such bank and to take all action necessary in connection therewith, provided that all action taken shall be in accordance with plans satisfactory to the Comptroller of the Currency.

(Signed) Elizabeth L. Carmichael

CARMICHAEL

Definition of KECEA:

The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).

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

Item No. 2
3/1/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 1, 1963

Board of Directors,
The Marine Trust Company of Western New York,
Buffalo, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment and operation of a branch at 238 Main Street, Buffalo, Erie County, New York, by The Marine Trust Company of Western New York.

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. 3
3/1/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 1, 1963

Board of Directors,
Southern Arizona Bank and Trust Company,
Tucson, Arizona.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Southern Arizona Bank and Trust Company, Tucson, Arizona, of a branch office in a shopping center at the intersection of 24th Street and Camelback Road in Phoenix, Arizona, 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.)

Item No. 4
3/1/63

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

In the Matter of the Application of
UNION TRUST COMPANY OF MARYLAND
for approval of merger with
Peoples Loan, Savings and Deposit Bank

ORDER APPROVING MERGER OF BANKS

There has come before the Board of Governors, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), an application by Union Trust Company of Maryland, Baltimore, Maryland, for the Board's prior approval of the merger of that bank and Peoples Loan, Savings and Deposit Bank, Cambridge, Maryland, under the charter and title of the former. As an incident to the merger, the sole office of the latter bank would be operated as a branch of the former bank. Notice of the proposed merger, in form approved by the Board, has been published pursuant to said Act.

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

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

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

Dated at Washington, D. C., this 1st day of March, 1963.

By order of the Board of Governors.

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

Voting against this action: Governors Robertson and Mitchell.

Absent and not voting: Governors Mills and King.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 5
3/1/63BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEMAPPLICATION BY UNION TRUST COMPANY OF MARYLAND
FOR APPROVAL OF MERGER WITH
PEOPLES LOAN, SAVINGS AND DEPOSIT BANKSTATEMENT

Union Trust Company of Maryland, Baltimore, Maryland ("Union"), with deposits of \$291.9 million,* has applied, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), for the Board's prior approval of the merger of that bank and Peoples Loan, Savings and Deposit Bank, Cambridge, Maryland ("Peoples"), with deposits of \$9.9 million.* The banks would merge under the charter and title of Union, which is a State-chartered member bank of the Federal Reserve System. As an incident to the merger, the sole office of Peoples would become a branch of Union, increasing the number of its offices from 38 to 39.

Under the law, 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

* Deposit figures are as of October 22, 1962, for Union, and as of July 16, 1962, for Peoples.

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 of both Union and Peoples is satisfactory, as is their present financial condition. The capital structure of each is adequate. The future earnings prospects of Peoples are only fair at best. The future earnings prospects of Union are favorable, and this would be true of the resulting bank. The management of each bank is satisfactory. Although Peoples has not as yet provided for management succession, this is not regarded as an immediate problem. Under the management of the resulting bank, it is believed that all banking factors would be satisfactory.

There is no evidence 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. - All but 5 of Union's 38 offices are in the city of Baltimore or within a range of 20 miles of the city. Baltimore, with a population of 939,000, is a commercial and industrial center, a major seaport, and one of the larger eastern insurance and financial centers. Consummation of the merger will not have any measurable effect on the convenience and needs of the Baltimore community.

Five of Union's branches are located on the Eastern Shore Peninsula, two in the town of Salisbury and one each in Easton, Hillsboro and Trappe. Cambridge, the community which will principally be affected, has a population of 12,000, and is the seat of Dorchester County and the second largest city in the Eastern Shore section of Maryland. Cambridge is situated in the center of a prosperous agricultural region, growing wheat, corn, soybeans and tomatoes. Food packing was formerly the dominant industry, resulting in a seasonal employment pattern, but new industries entering the area have brought, and are continuing to bring, year-round manufacturing to Cambridge and its environs. The Cambridge Harbor Project includes deepening of the channel in the Choptank River and the constructing of a pier which will make it possible for large seagoing freighters to load and unload at Cambridge, encouraging and fostering the trend toward industrialization. A bridge and tunnel now under construction will connect Norfolk, Virginia, to the southern tip of the Eastern Shore Peninsula, and should accelerate the development of the Eastern Shore area.

Cambridge is now served by three local banks and by a branch of the largest bank in Maryland, the Maryland National Bank, Baltimore. None of the three local banks has a lending limit in excess of \$60,500, none operates a trust department, nor does any make available many of the services needed in an expanding area. Until the trend toward industrialization began, these local banks were adequate to serve the banking needs of the community. Growth and development of the area,

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which seems well assured, means that there will be a significant degree of need for those services which can be supplied only by large banks. While a large bank now operates an office in Cambridge, growth would be encouraged by permitting another to expand into the Cambridge area. The existence of the Union Trust Company office at Trappe, 7 miles away, is not a convenient alternative source of services for larger customers, as it is not feasible to retain an adequate staff in Trappe, which has a population of only 350. Accordingly, the proposed merger would contribute, in the Board's judgment, to the convenience and needs of the Cambridge area.

Competition. - There does not appear to be a significant amount of competition existing between Union and Peoples. While Union has a branch in Trappe, Cambridge and Trappe are separated by the Choptank River, which divides the two trade areas.

The small amount of business of common customers of Union and Peoples originates chiefly from firms having offices in Cambridge and also in one of the Eastern Shore communities where Union Trust already has an office. Neither bank obtains a significant amount of business from the service area of the other.

At the present time Dorchester County is served by 7 offices of 4 banks. Three of these banks are relatively small and are headquartered in Cambridge while the Maryland National Bank operates one branch in Cambridge and a branch in two other communities in the County, each of which is about 15 miles from Cambridge. While Peoples holds the

largest percentage of county deposits, its position in the County is not dominant. It is not anticipated that the other two well-established local banks in Cambridge would be unable to maintain satisfactory growth rates following effectuation of the proposal.

Summary and conclusion. - There is little competition existing between the two banks involved in this merger, and consummation of the transaction would not have adverse effect on the other banks operating in Cambridge.

The earnings of Peoples have been only fair, at best, and consummation of the transaction would establish a basis for improved earnings.

Cambridge is experiencing industrial and commercial expansion, and prospects for growth of the community and surrounding area are regarded as good. This merger would aid this development through the expansion of banking services in Cambridge and thus benefit the community as a whole.

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

March 1, 1963.

DISSENTING STATEMENT OF GOVERNOR ROBERTSON

In the Bank Merger Act of 1960, Congress charged the Federal agencies which supervise banks not to approve any merger unless, after considering all the factors set forth in the Act, the agency "finds the transaction to be in the public interest". The Senate and House Committees on Banking and Currency believed that, in most cases, the decision would be clear. If it was not, if the balancing of the various factors proved to be difficult, then, in the language of the one, adopted by the other, full consideration was to be given to the basic purposes of the statute, which were "to promote a sound banking system, in the interest of the government, borrowers, depositors, and the public; and to promote competition as an indispensable element in a sound banking system". (Emphasis supplied) (S. Rept. No. 196, April 17, 1959, p. 23; H. Rept. No. 1416, March 23, 1960, p. 11)

Testing by this standard, I cannot justify the decision to approve this merger. None of the banking factors provides positive weight for approval. Both banks are in satisfactory condition. The prospects of both are favorable. No real management problem exists. It is said that the community involved - Cambridge, on the eastern shore of Maryland - is a growing one, with new industry moving into the area. But I find no allegation in the record of unserved present or future banking needs of any size - large or small. The biggest bank in Maryland has a branch in Cambridge. (Parenthetically, the small volume of that branch's business does not indicate that the credit

needs of the area cannot be met by banks of smaller size, or that a branch of a large outside bank will do more to stimulate and encourage economic growth in this community than will a local independent bank.) In addition, the applicant already has a branch just seven miles away. Hence, if a need should develop for loans larger than could be accommodated by the independent local banks, larger credit facilities are available, not only locally, but also seven miles distant. Consequently, the potential future growth of the area is no justification for the elimination of a sound independent bank and the replacement of it, through merger, by a branch of a large Baltimore institution.

Consideration of the effect of the merger on competition does not, in my view, offset the grey neutrality of the banking factors. There are presently three independent local banks in Cambridge. Of these, the largest is being absorbed by this proposed merger. Whatever potential and actual competition exists between that bank and the existing branch of the applicant bank, seven miles away, will disappear.

Finding the banking factors neutral, and a reduction in actual or potential competition which will result from the merger, with no visible sign that the public interest will be promoted by this further step toward concentration of banking power in the State of Maryland, it seems to me that the Congressional mandate requires denial of the application.

March 1, 1963

Item No. 7
3/1/63

DISSENTING STATEMENT OF GOVERNOR MITCHELL

The evidence in the record of this case does not convince me that this application should be approved. The anticipated industrialization in and around Cambridge should it occur may establish the need for different and more banking facilities in the future than exist at present, but there is no showing of a present need which cannot be satisfied by the banks already there. The fact that Cambridge now has a branch of the largest bank in Maryland, and that this branch has not developed any startling rate of growth, indicates to me that there is as yet no need for the kind of specialized services which a large bank can offer. Had the Board found it in the public interest to permit and accelerate the transformation of the Maryland banking system into a State-wide system as rapidly as possible--had the evidence been before the Board to support such a finding--then, on that basis, I could have concurred in approving the application. On the information before the Board in this record, however, I am compelled to vote for disapproval.

March 1, 1963



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

1754
Item No. 8
3/1/63

OFFICE OF THE CHAIRMAN

March 12, 1963.

Mr. William L. Cary,
Chairman,
Securities and Exchange Commission,
Washington 25, D. C.

Dear Mr. Chairman:

Enclosed are five copies of a report prepared by the Board's staff on last fall's survey of member bank loans collateralized by stocks or bonds. In view of the statistical nature of the survey, the report is confined to a description of the findings, presented on the basis of various classifications of loans, security collateral, and banking office characteristics. No conclusions are drawn from the study, since the data are subject to differing interpretations.

It is apparent, however, that the volume of bank loans collateralized by securities is large, and that a substantial proportion of the credit reported as being to purchase or carry securities is exempt from Regulation U by virtue of its identification with unlisted stocks. In this connection, I would like to reaffirm the Board's previously stated position as to the desirability of extending its authority so that loans for purchasing and carrying at least the more actively traded over-the-counter securities could be covered under the Regulation. This would of course require a change in the enabling legislation. Extension of regulatory authority along these lines would be more feasible if reliable and authoritative price quotations were available, since the lack of such a "standard" would pose a difficult administrative problem.

Our research staff will be glad to discuss the survey and its findings with your staff in any detail desired. Also, additional copies of the report are readily available should you need them.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures

Item No. 755
3/1/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 6, 1963.



Dear Sir:

Enclosed is a copy of a letter, dated February 5, 1963, that Citizens Bank & Trust Company, Park Ridge, Illinois, a member State bank, has sent to all customers of its United Security Account Division.

The February 5 letter makes it clear that, after February 1963, a customer will no longer be permitted to repay his check-loans "by using the Credit Instruction Form to transfer the money out of your savings account." The letter tells the customer that "if you want to repay a loan we must ask you to do it with new deposits," and the use of the Credit Instruction Form (the means by which the objectionable feature of the plan was effectuated) "will be unnecessary with the new procedure which begins next month."

Although the formal objection to the United Security Account plan was that it violated section 217.1(e) of Regulation Q, the basic fault was that the plan contravened, in effect, section 19 of the Federal Reserve Act, which prohibits a member bank from paying interest on accounts subject to check. With the discontinuance of the Credit Instruction Form and the procedure by which the bank would, as a routine matter if so requested by a mark on that Form, repay check-loans by transfers from savings deposits, the objectionable feature of the plan seemingly has been eliminated.

This communication is being sent to the Reserve Banks in view of Citizens Bank's nationwide solicitation of United Security Accounts and the numerous inquiries received by Reserve Banks regarding such accounts.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman".

Merritt Sherman,
Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

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CITIZENS BANK & TRUST COMPANY

United Security Account
Division
Chicago 48, Illinois

February 5, 1963

Dear Friend:

A few years ago we brought a new idea to personal banking. We introduced the United Security Account. It was designed to be a combination savings and cheque-credit account. The savings portion of the account earned the maximum interest permitted by the Federal Reserve Board.

The mechanics were clear. When we paid the cheques you wrote, we loaned you the money. You were able to continue the loan or repay it by using the Credit Instruction Form to transfer the money out of your savings account.

The idea was so revolutionary that a number of other banks questioned our right to pay you any interest at all, because the Federal Reserve Act prohibits paying interest on checking accounts. To avoid any misunderstanding, the Federal Reserve Board has asked us to simplify our procedure so it cannot be said that savings which earn interest are being used to pay cheques.

You will still earn the highest rate of interest. You will still be permitted to use your United Security Account Cheques. Any cheques you write will be considered a loan as in the past. Even though you have ample funds in your savings account, this indebtedness will appear on your statements as before. However, beginning next month, if you want to repay a loan, we must ask you to do it with new deposits.

Most all United Security Accountholders have been making deposits with regularity. Any deposits - that is, any money you send in - will first be used to repay any cheque-loans. If they are received by the 10th of the month, there will be no charge for cheque-loans made during the previous month. The balance of your deposit will be credited to your savings account and earn interest.

In many ways this procedure will simplify the program. You will no longer have to return Credit Instruction Forms. Your savings earnings will not be disturbed by a series of withdrawals to pay your cheques. Of course you can withdraw directly as with any other savings account.

I am confident you will like the new simplified procedure.

Very sincerely yours,

(Signed) John MacArthur

John MacArthur
Chairman of the Board
CITIZENS BANK & TRUST COMPANY

P.S. The Credit Instruction Form on the enclosed statement can still be used this month as in the past, but it will be unnecessary with the new procedure which begins next month.