

Minutes of the Board of Governors of the Federal Reserve System on Monday, March 4, 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. King 1/
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
Mrs. Semia, Technical Assistant, Office of
the Secretary

Messrs. Noyes, Koch, Brill, Garfield, Holland,
Williams, Dembitz, Solomon, Broida, Eckert,
Gehman, Partee, Peret, and Yager of the
Division of Research and Statistics

Messrs. Furth, Hersey, Sammons, Katz, Irvine,
Klein, Maroni, Mills, and Reynolds of the
Division of International Finance

Economic review. The Divisions of International Finance and Research and Statistics presented information relating to recent international and domestic financial and business developments, and made further comments in response to questions asked by members of the Board.

1/ Withdrew from meeting at point indicated in minutes.

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Governor King then withdrew, as did all members of the staff except Messrs. Sherman, Kenyon, Molony, Cardon, Fauver, Noyes, and Dembitz, and Mrs. Semia, and the following entered the room:

Mr. Hackley, General Counsel
 Mr. Farrell, Director, Division of Bank Operations
 Mr. Solomon, Director, Division of Examinations
 Mr. Conkling, Assistant Director, Division of Bank Operations
 Mr. Goodman, Assistant Director, Division of Examinations
 Mr. Leavitt, Assistant Director, Division of Examinations
 Mr. Young, Senior Attorney, Legal Division
 Mr. Collier, Chief, Current Series Section, Division of Bank Operations

Circulated or 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>
Letter to the Federal Reserve Bank of Boston waiving the assessment of penalties incurred by Fall River Trust Company, Fall River, Massachusetts, for required reserve deficiencies.	1
Letter to Wells Fargo Bank, San Francisco, California, granting permission to purchase and hold stock in Wells Fargo Bank International Corporation, San Francisco, and noting without objection that the Corporation was formally started on January 29, 1963, with a fully subscribed and paid-up capital. (Pursuant to the Board's action on January 4, 1963, the agreement required by section 25 of the Federal Reserve Act was executed by Wells Fargo Bank International Corporation on January 30, 1963.)	2
Letter to County Bank of Santa Cruz, Santa Cruz, California, approving an extension of time to establish a branch near the intersection of Front and Cooper Streets.	3

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	<u>Item No.</u>
Letter to the Presidents of all Federal Reserve Banks regarding forms to be used by State member banks and their affiliates in submitting reports as of the next call date.	4
Letter to James F. Gallagher, New York, New York supplying certain information regarding holding company affiliates.	5
Letter to the Chairman of the Senate Committee on the Judiciary reporting on S. 691, a bill "To require public hearings to be held in each State affected by a proposed agency rule, if timely protest is filed with the agency after notice of the proposed rule is published in the Federal Register."	6

Messrs. Cardon, Goodman, and Young then withdrew.

Reduced reserves. There had been distributed a memorandum from Messrs. Farrell and Noyes dated March 1, 1963, attaching tables prepared pursuant to the discussion at the meeting on February 4 concerning criteria for granting to member banks in reserve cities permission to carry reduced reserves. The tables contained a list of all member banks in reserve cities and showed for each bank, at the September 28, 1962, call date, gross demand deposits, time deposits, total deposits, and interbank deposits. The deposit turnover rate was shown for the year 1959, which was the latest year for which individual bank data were available. The memorandum suggested that the Board might want to ask the Federal Reserve Banks to supply certain additional information.

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The discussion at this meeting brought out that the figures indicated that a number of banks that would appear superficially to qualify for the privilege of carrying reduced reserves had not requested such permission. Question was asked whether, in equity, steps should be taken to bring to the attention of these banks the possible availability of the privilege. It was observed that aside from other possible considerations, questions of prestige might be involved in some cases. Also, there appeared to have been a tendency for applications for permission to carry reduced reserves to follow a city pattern; if one bank in a city requested and received the privilege, others in the same city were likely also to apply. There was general agreement that it would be desirable to make the tables available to the Reserve Bank Presidents and ask their comments.

Various suggestions were made as to factors that might be of importance in judging whether or not permission to carry reduced reserves should be granted. Comment was made, among other things, regarding the question involved in allowing banks situated near reserve cities, and with branches in such cities, to carry reduced reserves on the theory that they were not truly in competition with banks in the heart of the city. Departure from that principle might be indicated, it was suggested, if banks located their head offices in the outskirts of reserve cities and then established downtown branches that competed directly with banks with headquarters in the city proper.

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During the discussion Governor Robertson observed that the figures presented showed diversity from one Federal Reserve district to another in the size of the institutions that had been granted permission to carry reduced reserves. He raised the question whether the Board should not be cautious about seeming to have different rules for different districts, and whether it might not be well to formulate criteria before asking the Reserve Banks for their views.

It appeared to be the consensus, however, that it would be preferable to obtain comments from the Reserve Banks before trying to formulate standards. At the same time, a view was expressed that it might be helpful to the Reserve Banks, in preparing their comments, if a reasonable amount of guidance could be given to them.

At the conclusion of the discussion it was agreed that a letter would be prepared transmitting to the Reserve Bank Presidents the data that had been assembled, requesting their views and certain additional kinds of information, suggesting such guidelines for their consideration as might seem appropriate, and tentatively raising the question whether or not banks that superficially appeared to qualify for carrying reduced reserves should be informed that it was possible that the privilege might be granted if they chose to apply for it.

Application for permission to carry reduced reserves (City National Bank of Beverly Hills) (Item No. 7). There had been distributed a memorandum dated February 27, 1963, from the Division of Bank Operations

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regarding an application by City National Bank of Beverly Hills, Beverly Hills, California, for continuation of permission to maintain reduced reserves after the establishment of another branch within the corporate limits of the city of Los Angeles. Vice President Galvin of the Federal Reserve Bank of San Francisco, in a letter dated February 11, 1963, had recommended that the current status of the bank be continued.

The memorandum noted that this was the fifth such request from City National Bank in five years. In granting the most recent request, on November 23, 1960, the Board had stated that it had "been studying the problem of classifying banks for reserve purposes under the legislation enacted July 28, 1959, and the study could result in changes in some of the outstanding authorizations given by the Board for carrying reduced reserves. Pending completion of this study, the Board would be reluctant to consider further requests for permission for your bank to continue to maintain reduced reserves if it were to establish additional branch offices within the city of Los Angeles." In the light of that reservation, the Division of Bank Operations suggested that, before acting on the current application, the Board might want to have more information from the Reserve Bank. Several subjects on which additional information might be helpful were set out in the memorandum. On the other hand, if the Board deemed sufficient the statement in Mr. Galvin's letter that the Reserve Bank continued to regard the operations of City National Bank as characteristic of a country bank, it might wish to grant the requested permission

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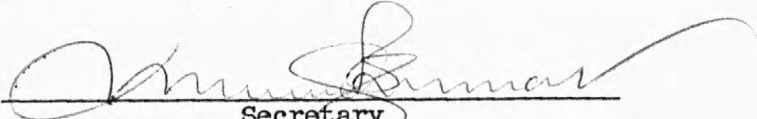
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without asking for further information. Attached to the memorandum were alternative drafts of letters reflecting these two possible courses of action.

After a discussion of the application of City National Bank of Beverly Hills in the light of the preceding discussion of the general question of granting permission to carry reduced reserves, the alternative draft of letter requesting more information bearing upon the application was approved unanimously. A copy of the letter is attached as Item No. 7.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum dated March 1, 1963, from Mr. Kenyon, Assistant Secretary of the Board, Governor Shepardson today authorized on behalf of the Board the submission to National Archives, for Congressional approval in accordance with the usual procedure, requests for destruction schedules with respect to certain specified categories of Board records.


Secretary

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

Item No. 1
3/4/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 4, 1963

Mr. Earle O. Latham,
First Vice President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Latham:

This refers to your letter of February 11 regarding penalties totaling \$1,062.47 incurred by the Fall River Trust Company, Fall River, Massachusetts, on deficiencies in its required reserves for thirteen computation periods between January 10, 1962, through January 9, 1963.

It was noted that: (1) these deficiencies resulted from an incorrect practice in the computation of net demand deposits caused by a change in accounting procedure by the member bank, the significance of which was not understood by the clerk who prepared the daily reports of deposits; (2) the member has previously had an excellent record in maintaining its required reserves; (3) penalties for two of the periods can be waived by your Bank under the provisions of Paragraph C of the Board's instructions (S-1123; FRIS #6120); and (4) the procedure, now reinstated at your Bank, of comparing the report of deposits for reserve purposes with the mid-year call report of condition would have disclosed the bank's incorrect practice and avoided three of the smaller deficiencies in October and November.

In the circumstances, the Board authorizes your Bank to waive the assessments of the penalties in the amount of \$1,062.47 for the eleven deficient periods listed in your letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 2
3/4/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 4, 1963

Wells Fargo Bank,
San Francisco 20, California.

Gentlemen:

This refers to the application of your Bank dated November 21, 1962, for permission of the Board of Governors, under the provisions of Sections 9 and 25 of the Federal Reserve Act, to purchase and hold stock in Wells Fargo Bank International Corporation, San Francisco, California. Reference is also made to the agreement dated January 30, 1963, executed by Wells Fargo Bank International Corporation in accordance with the requirements of Section 25 of the Federal Reserve Act, by which such corporation agrees to restrict its operations and conduct its business in the manner set forth therein.

After consideration of the application and agreement, the Board of Governors of the Federal Reserve System approves the application and grants permission to Wells Fargo Bank, San Francisco, California, subject to all of the provisions of Sections 9 and 25 of the Federal Reserve Act, to purchase and hold stock in Wells Fargo Bank International Corporation in the amount of approximately \$2,000,000.

The Board of Governors has noted without objection, from Executive Vice President F. J. Hellman's letter of February 26, 1963, with respect to a proposed Philippine investment, that the Corporation was "formally started on January 29, 1963, with a fully subscribed and paid-up capital of \$2,002,500 on January 31, 1963," and that "proceeds of the stock have been placed in Bankers Acceptances, Treasury Bills, and cash."

Please furnish the Board of Governors, through the Federal Reserve Bank of San Francisco, with copies of the articles of incorporation and by-laws of the Corporation.

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
3/4/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 4, 1963

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

Gentlemen:

The Board of Governors of the Federal Reserve System extends to September 16, 1963, the time within which County Bank of Santa Cruz may establish a branch in the vicinity of the intersection of Front and Cooper Streets, Santa Cruz, California.

Since the bank has now acquired title to property for the proposed branch, the Board trusts that steps leading towards establishment of the branch will be taken as soon as possible.

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. 467
3/4/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 7, 1963

Dear Sir:

The indicated number of copies of the following forms are being forwarded to your Bank under separate cover for use of State member banks and their affiliates in submitting reports as of the next call date. A copy of each form is attached.

Number of
copies

Form FR 105 (Call No. 167), Report of Condition of State member banks.

Form FR 105e (Revised February 1961), Publisher's copy of report of condition of State member banks.

Form FR 105e-1 (Revised February 1961), Publisher's copy of report of condition of State member banks.

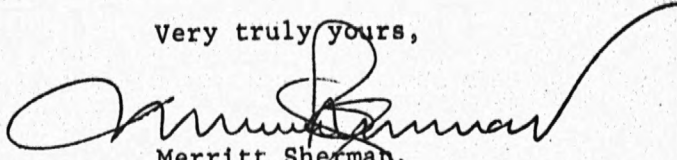
Form FR 220 (Revised March 1952), Report of affiliate or holding company affiliate.

Form FR 220a (Revised March 1952), Publisher's copy of report of affiliate or holding company affiliate.

All of the forms are the same as those used on December 28, 1962.

Inquiring banks may be informed that investments in "Bank Service Corporations" provided for by the Bank Service Corporation Act should be included in reports of condition against item 9, Investments and other assets indirectly representing bank premises or other real estate, whether such investments are in the form of stock ownership, a loan, or other advance of funds.

Very truly yours,


Merritt Sherman,
Secretary

Enclosures

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

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

Item No. 5
3/4/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 4, 1963

Mr. James F. Gallagher,
313 East 183rd Street,
New York 58, New York.

Dear Mr. Gallagher:

This is in reply to your letter of January 30, presenting the following question:

"What companies, other than the Marine Midland Corporation, are now, or have ever been, defined by the Board as holding company affiliates under the Banking Acts of 1933 and 1935 for member banks which they control, or controlled, in New York State?"

In order to be certain that no misunderstanding exists, it is pointed out that the Board is not authorized to "define" companies as holding company affiliates. The term "holding company affiliate", as used in the Federal banking statutes, is defined in section 2(c) of the Banking Act of 1933 (U. S. Code, title 12, sec. 221a), with which you are familiar. The last paragraph of section 2(c) excludes from the "holding company affiliate" category, for most purposes, "any organization which is determined by the Board of Governors of the Federal Reserve System not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks...."

Since a corporation is automatically a holding company affiliate if it falls within the statutory definition and neither registration with, nor action by, the Board of Governors is required, the Board has no certain means of learning what companies in New York State are now, or have been, holding company affiliates. However, under section 5144 of the U. S. Revised Statutes and section 9 of the Federal Reserve Act (U. S. Code, title 12, secs. 61 and 337), shares of national banks and member State banks that are controlled by a holding company affiliate may not be voted, for most purposes, "unless such holding company affiliate shall have first obtained a voting permit" from the Board of Governors.

Mr. James F. Gallagher

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At the present time, Marine Midland Corporation is the only holding company affiliate that holds a voting permit with respect to one or more banks in New York State. In the past, First National Corporation of Elmira, Elmira, New York, First Securities Corporation of Syracuse, and its affiliated First Trust and Deposit Company, Syracuse, New York, were granted voting permits with respect to certain New York banks. Without an extensive search, it is not possible to ascertain whether voting permits have been issued to any other holding company affiliates with respect to banks in New York.

Under the last paragraph of section 2(c) of the Banking Act of 1933, referred to above, the Board has made a number of determinations of the nature described therein. As indicated, when such determination has been made, the organization involved is not a holding company affiliate except for the one purpose noted in that statutory provision, and it is therefore excluded from the requirement of obtaining a voting permit before voting the stock of the member bank or banks involved. In most, if not all, of the cases in which such determinations have been made, the Corporation owned or controlled a majority of the stock of only one bank.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 6
3/4/63

OFFICE OF THE CHAIRMAN
March 6, 1963

The Honorable James O. Eastland,
Chairman, Committee of the Judiciary,
U. S. Senate,
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your request of February 13, 1963, for the Board's report on S. 691, a bill, "To require public hearings to be held in each State affected by a proposed agency rule, if timely protest is filed with the agency after notice of the proposed rule is published in the Federal Register."

Under the Board's Rules of Procedure in connection with proposed rule making, notice of which is published in the Federal Register, any individual may submit for consideration of the Board any data, views, or arguments which he may care to present. The Board considers that such presentations in most cases are as complete and effective as could be adduced at public hearings. Of course, under the present law, there is nothing to preclude a public hearing whenever it is indicated that such a proceeding would be of assistance to the Board in formulating a judgment.

Based on its experience with rule making in the field of banking, it is the Board's view that the proposed legislation is not needed to protect the public interest and that the delay and expense involved in the hearing that would be required under the bill would outweigh any benefit which might result.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 7
3/4/63

WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 4, 1963



Mr. Eliot J. Swan, President,
Federal Reserve Bank of San Francisco,
San Francisco 20, California.

Dear Mr. Swan:

This refers to Mr. Galvin's letter of February 11, 1963, indicating that the City National Bank of Beverly Hills, Beverly Hills, California, has received permission to establish a fifth branch in the outlying area of the city of Los Angeles, and recommending that the permission which the bank now has to maintain reserves required for member banks not in a reserve city be continued after the establishment of the new branch.

Mr. Galvin notes that the Board's letter of November 23, 1960, giving this bank permission to continue reduced reserves after the establishment of the fourth branch within the city of Los Angeles, stated that the Board would be reluctant to consider any further requests of this nature from the subject bank pending completion of a study that it was making in regard to the problem of classifying banks for reserve purposes under legislation enacted June 28, 1959. In support of the current recommendation, Mr. Galvin's letter states that the operations of the bank continue to be regarded as characteristic of a country bank and that the addition of one more branch in an outlying section would not change the type of banking service offered to the public.

The Board agrees that the establishment of the branch under consideration would not be likely, in itself, to change the type of banking service offered to the public, but it is concerned about the possibility that the increasing number of its offices within the city of Los Angeles may be gradually bringing the City National Bank of Beverly Hills more and more into competition with downtown banks in Los Angeles to an extent that would warrant permission to carry reduced reserves. Accordingly, before acting on the current request, the Board would like to have the views of your Bank on this particular question.

The following additional information with regard to activities of the City National Bank of Beverly Hills would also be appreciated:

Mr. Eliot J. Swan

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- (1) Average ratio (per cent) of excess reserves to required reserves.
- (2) Use of the credit facilities of the Reserve Bank.
- (3) Activity in the Federal funds, Treasury bills, and acceptance markets.
- (4) Percentage of total loans classified as commercial and industrial, nonbank financial, and loans to brokers and dealers.
- (5) Any information that can be obtained regarding the nature of the bank's depositors and borrowers, particularly the larger ones, and the activity of its deposit accounts.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.