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Minutes for March 12, 1963

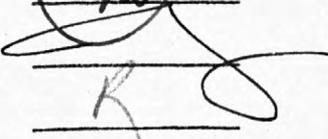
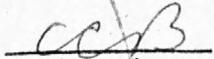
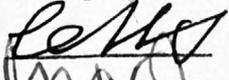
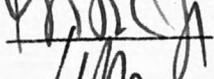
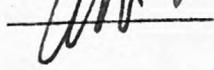
To: Members of the Board

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></u>
Gov. Mills	<u></u>
Gov. Robertson	<u></u>
Gov. Balderston	<u></u>
Gov. Shepardson	<u></u>
Gov. King	<u></u>
Gov. Mitchell	<u></u>

Minutes of the Board of Governors of the Federal Reserve System on Tuesday, March 12, 1963. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Robertson
Mr. King

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Shay, Assistant General Counsel
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Mattras, General Assistant, Office of the Secretary
Mr. Young, Senior Attorney, Legal Division
Mr. Doyle, Attorney, Legal Division

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>
Letter to the Federal Reserve Bank of New York regarding operations of the Nassau County and Bergen County Clearing Bureaus.	1
Telegram to the Federal Reserve Bank of New York with respect to the proposed acquisition by the Bank of IBM electronic check processing equipment.	2
Letter to the Federal Reserve Bank of New York with respect to the question whether time deposits of the Bank of the Ryukyus would qualify for exemption from interest rate limitations.	3

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Report on competitive factors (Reading-Reamstown, Pennsylvania).

There had been distributed a draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of Reamstown Exchange Bank, Reamstown, Pennsylvania, into Berks County Trust Company, Reading, Pennsylvania.

After discussion, the report was approved unanimously for transmission to the Corporation subject to the understanding that the conclusion of the report would be revised, as suggested by Governor Mills, to read as follows:

There is only nominal competition presently existing between Berks County Trust Company and Reamstown Exchange Bank as the market areas served by the two banks are fairly distinct. Competition in the Reamstown area might be intensified by the entrance of a substantially larger bank. While consummation of this proposal would expand only slightly the size of the largest bank in Berks County, it would permit that bank to expand its operations into adjoining Lancaster County, and as it would become the largest bank having offices in both counties the potentiality for an adverse competitive situation would exist.

Application of Elyria Savings & Trust Company (Items 4 and 5).

Pursuant to the decision reached at the meeting on March 6, 1963, there had been distributed a proposed order and statement reflecting the Board's approval of the application of The Elyria Savings & Trust Company, Elyria, Ohio, to consolidate with The Grafton Savings and Banking Company, Grafton, Ohio.

The issuance of the order and statement was authorized. Copies of the order and statement, as issued, are attached to these minutes as Items 4 and 5.

The meeting then adjourned.

3/12/63

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Secretary's Notes: Governor Robertson, acting in the absence of Governor Shepardson, today approved on behalf of the Board a memorandum dated March 8, 1963, from Mr. Young, Adviser to the Board and Director, Division of International Finance, recommending (1) establishment of a new position of Economist (Grade FR-12) in the Europe and British Commonwealth Section of that Division; and (2) appointment of Leonard A. Lupo to the position, with basic annual salary at the rate of \$10,735, effective the date of entrance upon duty.

Governor Balderston, acting in the absence of Governor Shepardson, today approved on behalf of the Board letters to the Federal Reserve Banks of New York, Atlanta, and Chicago (attached Items 6, 7, and 8) approving the appointment of Julio J. Castellanos, William Arthur Hinton, Jr., and Ormel J. Prust as assistant examiners for the respective Banks.


Secretary

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

Item No. 1
3/12/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 12, 1963



Mr. M. A. Harris,
First Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Harris:

From your letter dated February 8, 1963, reporting the 1962 operations of the Nassau County and Bergen County Clearing Bureaus, the Board notes that in the opinion of officers of the New York Reserve Bank both of these Bureaus continue to provide efficient check collection services at a savings to the Reserve Bank and no change is necessary or desirable at this time in the basic agreements with the respective two clearing house associations.

The Board also notes that the continuing increase in volume of exchanges handled by the Nassau County Clearing Bureau has created space and personnel problems that suggest the desirability of installing high-speed equipment for processing these items, but that the volume handled by the Bergen County Clearing Bureau is not yet sufficient to justify automating that operation.

The Reserve Bank is understood to have agreed to continue contributing to the cost of both the Nassau County and Bergen County operations under the present arrangements, subject to the conditions that (1) participating banks making use of the encoded work received from these Clearing Bureaus will amount encode the items forwarded by them to such Bureaus, (2) participating banks in the Bergen County Clearing Bureau that process checks electronically will also amount encode items sent to their correspondent banks and to Federal Reserve Banks, and (3) all Nassau County Clearing Bureau participating banks will be encouraged fully by that Bureau to amount encode items forwarded for collection to correspondent banks or to Federal Reserve Banks.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Item No. 2
3/12/63

T E L E G R A M
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

March 12, 1963

Treiber - New York

Reurlet February 19, 1963, Board interposes no objection to acquisition in mid-1963 on a rental basis of an IBM 1401-1419 check processing system, with understanding that it will be replaced by IBM 1420 system under a lease-purchase agreement when that system becomes available in 1964.

Board notes your intention to place an order now for a second 1420 system for delivery in spring of 1964 and that the order is subject to final decision approximately six months prior to delivery. Since this proposal is only tentative at this time, Board will defer consideration of the second 1420 system until final decision is reached by your Bank with respect thereto.

(Signed) Merritt Sherman

SHERMAN

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

Item No. 3
3/12/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 14, 1963



Mr. Robert J. Crowley,
Assistant Counsel,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Crowley:

This refers to your letter of February 5, 1963, with accompanying memorandum from the First National City Bank, regarding the question whether time deposits of the Bank of the Ryukyus qualify for the exemption from interest rate limitations which was granted by the Act of October 15, 1962 (P. L. 87-827), with respect to the time deposits of "foreign governments, monetary and financial authorities of foreign governments when acting as such, or international financial institutions of which the United States is a member".

The Bank of the Ryukyus, established on May 4, 1948, by order of the United States Military Government for the Ryukyus, operates both as the islands' central bank and as their principal commercial banking institution. Sections 7 and 8 of the Bank's charter require that at least 51 per cent of its capital stock be owned by the United States Military Government (now the United States Civil Administration).

Under Article 3 of the Treaty of Peace with Japan the United States has "the right to exercise all and any powers of administration, legislation and jurisdiction over the territory and inhabitants of these islands [the Ryukyus]" This right has been implemented by Executive Order No. 10713 (22 Fed. Reg. 4007), dated June 7, 1957, as amended by Executive Order No. 11010 (27 Fed. Reg. 2621), dated March 19, 1962.

There is no basis for regarding the Bank of the Ryukyus as either a foreign government or an international financial institution of which the United States is a member. Although it is the monetary (central banking) authority of the Ryukyus, it cannot, in the Board's opinion, reasonably be regarded as a monetary authority of a foreign

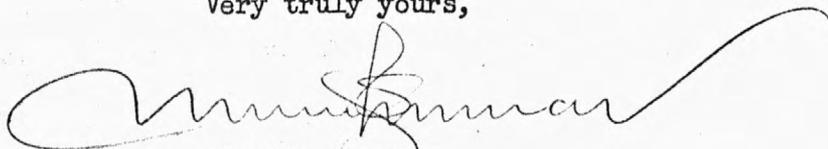
Mr. Robert J. Crowley

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government within the meaning of the Act of October 15, 1962. Accordingly, time deposits of the Bank held by member banks are not exempt from interest rate limitations prescribed by the Board pursuant to section 19 of the Federal Reserve Act.

The Board's opinion in this matter is not being publicized, and it is requested that this be made clear by your Bank in your advice to the member bank by which the question was raised.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman", written in dark ink. The signature is fluid and extends across the width of the page.

Merritt Sherman,
Secretary.

Item No. 4
3/12/63

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 ELYRIA SAVINGS & TRUST COMPANY
for approval of consolidation with
The Grafton Savings and Banking Company

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 Elyria Savings & Trust Company, Elyria, Ohio, a State-chartered member of the Federal Reserve System, for the Board's prior approval of the consolidation of that bank and The Grafton Savings and Banking Company, Grafton, Ohio, under the charter and title of The Elyria Savings & Trust Company. As an incident to the consolidation, the two offices of The Grafton Savings and Banking Company would be operated as branches of The Elyria Savings & Trust Company. 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,

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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 12th day of March, 1963.

By order of the Board of Governors.

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

Absent and not voting: Governor Mills.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 5
3/12/63BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEMAPPLICATION BY THE ELYRIA SAVINGS & TRUST COMPANY
FOR PRIOR APPROVAL OF CONSOLIDATION WITH
THE GRAFTON SAVINGS AND BANKING COMPANYSTATEMENT

The Elyria Savings & Trust Company, Elyria, Ohio ("Elyria Savings"), with deposits of \$46.4 million as of September 28, 1962, has applied, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), for the Board's prior approval of consolidation with The Grafton Savings and Banking Company, Grafton, Ohio ("Grafton Bank"), with deposits of \$7.9 million as of September 28, 1962, under the title and charter of Elyria Savings. The proposal contemplates that the two present offices of Grafton Bank would be operated as branches of the resulting bank, thus increasing the number of Elyria savings offices from seven to nine.

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, as well as the capital structure, of both banks are satisfactory. The earnings record of Elyria Savings also has been satisfactory. Consummation of the proposal would provide a basis for improving the present poor earnings prospects of Grafton Bank and would eliminate that bank's existing management succession problem. Present management of Grafton Bank is satisfactory, but circumstances indicate difficulty in attracting a qualified successor to replace the President who wishes to retire. The resulting bank, which would be under the competent management of Elyria Savings, would have a satisfactory financial condition, an adequate capital structure, and favorable earnings prospects -- the latter based in part on economies anticipated in the operation of Grafton Bank's present offices. There is no indication of any inconsistency with the provisions of 12 U.S.C., Ch. 16.

Convenience and needs of the communities. - Elyria Savings' main office and three of its branches are located in Elyria (1960 population about 44,000), a diversified industrial center in Lorain County (1960 population about 218,000), about twenty-five miles west of Cleveland. Its three other branches are located within seventeen miles of Elyria. There are two other banks in Elyria, one larger and the other smaller than Elyria Savings.

Grafton Bank's main office is in Grafton (1960 population 1,700 and trade area population of 10,000), seven miles southeast of Elyria. The single branch of Grafton Bank is four miles southwest of Grafton in LaGrange (1960 population 1,000). A large number of Grafton residents are employed in Cleveland and the Elyria-Lorain area, although there are small industries in Grafton which provide moderate employment. The economy of LaGrange is primarily supported by agriculture.

The Grafton area is experiencing considerable residential growth and the prospects for industrial growth are favorable. Grafton Bank presently makes no FHA or VA real estate loans and does not provide trust services. Should the proposed consolidation be consummated, the resulting institution would provide more complete local banking services than those presently offered by the Grafton Bank, although it would have little other effect on the convenience and needs of Lorain County.

Competition. - The main office and in-town branches of Elyria Savings are approximately seven miles north of Grafton Bank's main office. The next nearest offices of the two banks are Grafton Bank's LaGrange office and Elyria Savings' Wellington office, which are approximately ten miles apart. While there is some overlap of the service areas of the two banks, competition between them has not been active.

In terms of loans and of individual, partnership, and corporation deposits, Elyria Savings is now the second largest of eight competing banks with head offices in Lorain County. This position would not be changed by the proposed consolidation. Competition is also provided by the Lorain branch of the large Cleveland Trust Company, Cleveland, Ohio.

Such competition as presently exists between Elyria Savings and Grafton Bank would be eliminated, but county-wide competition among Elyria, Lorain, Oberlin, and Cleveland banks would not be affected significantly by the proposed consolidation. However, while the service area of Grafton Bank contains no other banking facilities, banks in Oberlin, eight miles to the west, and in Elyria presently offer some competition and, following the consolidation, would probably more aggressively seek business originating in the Grafton-LaGrange area.

Summary and conclusion. - Although the proposed consolidation would eliminate such competition as exists between the two banks, this would be offset by resulting benefits. The transaction would solve the management succession problem at the present Grafton Bank, strengthen earnings prospects there, and provide both greater banking resources and broader banking services in the growing Grafton-LaGrange area. There would be no significant competitive effect with respect to the other banks in Lorain County.

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

March 12, 1963.

Item No. 6
3/12/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



March 13, 1963

Mr. Howard D. Crosse, Vice President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Crosse:

In accordance with the request contained in your letter of March 4, 1963, the Board approves the appointment of Julio J. Castellanos as an assistant examiner for the Federal Reserve Bank of New York. Please advise the effective date of appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Item No. 7
3/12/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



March 13, 1963

AIR MAIL

Mr. J. E. Denmark, Vice President,
Federal Reserve Bank of Atlanta,
Atlanta 3, Georgia.

Dear Mr. Denmark:

In accordance with the request contained in Mr. Sheffer's letter of March 5, 1963, the Board approves the appointment of William Arthur Hinton, Jr., as an assistant examiner for the Federal Reserve Bank of Atlanta, effective March 18, 1963.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Item No. 8
3/12/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 13, 1963

AIR MAIL

Mr. Leland Ross, Vice President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Ross:

In accordance with the request contained in your letter of March 5, 1963, the Board approves the appointment of Ormel J. Prust as an assistant examiner for the Federal Reserve Bank of Chicago. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.