R 609
Rev. 9/61

Minutes for April 19, 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 WM

Gov. Mills

Gov. Robertson R.

Gov. Balderston CCB

Gov. Shepardson

Gov. King

Gov. Mitchell

Minutes of the Board of Governors of the Federal Reserve System on Friday, April 19, 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. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Young, Adviser to the Board and Director, Division of International Finance
Mr. Fauver, Assistant to the Board
Mr. Johnson, Director, Division of Personnel Administration
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. Sammons, Adviser, Division of International Finance
Mr. Katz, Associate Adviser, Division of International Finance
Mr. Spencer, General Assistant, Office of the Secretary
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. Gemmill, Economist, Division of International Finance

Money market review. There was distributed a table summarizing monetary developments in the four weeks ending April 17, 1963, and also one that showed dealer operations in Treasury bills for the weeks ending January 2 through April 17, 1963, to which Mr. Yager made reference in a

1/ Withdrew at point indicated in minutes.

report on recent developments in the Government securities market. Mr. Holland then discussed changes in bank reserves and bank credit, after which Mr. Gemmill reported on foreign exchange developments.

Following these reports, Messrs. Solomon (Research), Katz, Eckert, Yager, and Gemmill, and Miss Dingle withdrew from the meeting and the following entered the room:

Mr. Hackley, General Counsel
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Connell, Controller
Mr. Hexter, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Furth, Adviser, Division of International Finance
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Hill, Attorney, Legal Division
Mr. Millea, Chief, Administration Section, Division of Research and Statistics
Mr. Smith, Senior Economist, Division of Research and Statistics
Mr. Veenstra, Chief, Call Report Section, Division of Bank Operations
Mr. Hunter, Supervisory Review Examiner, Division of Examinations
Mr. Poundstone, Review Examiner, Division of Examinations
Mr. Kakalec, Assistant to the Controller

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, and San Francisco on April 18, 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.

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

| | Item No. |
|---|---|
| Letter to the Federal Reserve Bank of New York interposing no objection to the granting of a leave of absence to John J. Clarke, Assistant General Counsel, to lecture at the Center for Latin American Monetary Studies, Mexico City. | 1 |
| Letter to Manufacturers Hanover Trust Company, New York, New York, approving an extension of time to establish a branch at 41-01 Kissena Boulevard, Flushing, Borough of Queens. | 2 |
| Letter to the Federal Reserve Bank of Cleveland regarding the terms of a time certificate of deposit used by The Oberlin Savings Bank Company, Oberlin, Ohio. | 3 |
| Letter to The Farmers & Merchants Bank of Craig County, New Castle, Virginia, approving its application for membership in the Federal Reserve System. | 4 |
| Letter to The Archer National Bank of Chicago, Chicago, Illinois, granting its request for permission to maintain reduced reserves. | 5 |
| Letter to the Federal Reserve Bank of Chicago authorizing the Bank to waive assessment of any penalties incurred by The Archer National Bank of Chicago, Chicago, Illinois, for reserve deficiencies since November 3, 1962. | 6 |
| Letter to First State Bank of Red Bud, Red Bud, Illinois, approving an investment in bank premises. | 7 |
| Letter to Sidell State Bank, Sidell, Illinois, waiving the requirement of six-months' notice of withdrawal from membership in the Federal Reserve System. | 8 |

| | Item No. |
|---|---|
| Letter to Bank of Rangely, Rangely, Colorado, approving its application for membership in the Federal Reserve System. | 9 |
| Letter to Heights State Bank, Houston, Texas, (1) noting without objection an investment made in bank premises, and (2) urging that consideration be given to the sale of additional capital stock. | 10 |
| Letter to First State Bank of Lynwood, Lynwood, California, waiving the requirement of six-months' notice of withdrawal from membership in the Federal Reserve System. | 11 |
| Letter to The Sumitomo Bank of California, San Francisco, California, approving the establishment of a branch in the vicinity of 20th and Franklin Streets, Oakland. | 12 |
| Letter to Congressman Patman, Chairman of the House Committee on Banking and Currency, regarding further tabulating work requested in connection with the survey of chain banking. | 13 |
| Memorandum from Mr. Young, Adviser to the Board and Director, Division of International Finance, dated April 9, 1963, regarding System participation in the Seventh Meeting of Central Bank Technicians of the American Continent. | 14 |
| Letter to Western Bancorporation, Los Angeles, California, regarding questions relative to Western Bancorporation International Bank. | 15 |

Messrs. Young, Furth, Sammons, and Poundstone then withdrew from the meeting.

Application of Norfolk County Trust Company (Items 16-18). There had been distributed a proposed order and statement reflecting approval by majority vote on April 12, 1963, of the application of

Norfolk County Trust Company, Brookline, Massachusetts, to consolidate with Wellesley Trust Company, Wellesley, Massachusetts.

Following discussion, the issuance of the order and statement was authorized, subject to an editorial change in the statement. Copies of the order and statement, as issued, are attached hereto as Items 16 and 17. Attached as Item No. 18 is a copy of the dissenting statement of Governor Robertson, in which Governor Mitchell concurred.

Report on competitive factors (Milford-Batavia-Williamsburg, Ohio). There had been distributed a draft of report to the Comptroller of the Currency, and later a revised draft, on the competitive factors involved in the proposal of Clermont National Bank, Milford, Ohio, to acquire the assets of and assume liability to pay deposits made in The First National Bank of Batavia, Batavia, Ohio, and The Farmers and Merchants Bank, Williamsburg, Ohio.

The revised report was approved unanimously for transmittal to the Comptroller, the conclusion therein being stated as follows:

> There does not appear to be a significant amount of competition existing among the three banks involved in this proposal.
>
> It would appear that the small banks in Clermont County serve primarily their own communities. However, the remaining small banks in the county might be adversely affected competitively as the resulting institution would operate 6 of the 11 offices in the county and hold about 60 per cent of the total individual, partnership, and corporation bank deposits in the county.
>
> While the proposed transaction will increase the deposit size of the largest bank in Clermont County, substantially larger Cincinnati banks through branch systems operate in close proximity to the resulting bank's service area and represent effective competition to the continuing institution.

Application of State Bank of Albany. There had been distributed a memorandum from the Division of Examinations dated April 15, 1963, and supporting papers with respect to the application of State Bank of Albany, Albany, New York, to merge with The Unadilla National Bank, Unadilla, New York. The Division did not find that a weighing of the statutory factors indicated clear reason for approval or denial. In the absence of significant unfavorable factors, it seemed to the Division that the wishes of management and shareholders were entitled to consideration. Since the Unadilla bank had indicated a desire to withdraw from the banking business, the Division recommended approval of the application.

At the Board's request, Mr. Leavitt reviewed the facts of the case, the competitive factor reports received from the other Federal bank supervisory agencies and the Department of Justice, and the reasons underlying the recommendation of the Division of Examinations, his comments being based on the material that had been distributed.

Following Mr. Leavitt's remarks, Mr. Shay pointed out that in cases where consideration of the statutory factors does not seem to point strongly in the direction of either approval or disapproval, the wishes of the stockholders probably should be given some consideration. However, the Board had not given expression to this concept in its published statements on merger applications. In this particular case, he felt that it would be fairly difficult to draft a statement on other grounds if the Board decided upon approval. The competitive factors seemed to work in an adverse direction, without discernible offsetting benefits.

Governor Mills said in his thinking this case was close, but that he would deny the application. State Bank of Albany and its principal competitor had previously expanded their operations through merger, but principally in communities situated near Albany or in localities to the north where introduction of the services of larger banks had brought definite benefits. In this case he knew the area in the direction of Unadilla to be one of rich farm country; it contained a number of good, thrifty towns, with banks of various sizes, that were self-sufficient. The distance between Albany and Unadilla was about 100 miles; and State Bank's nearest branch office was approximately 50 miles from Unadilla. If this application were approved, it would involve a "leap frogging" situation, tempting State Bank to close the gap between offices by inviting merger with other small banks in the intervening area. This would further increase the concentration of commercial banking resources, and the potential competition resulting from the presence of State Bank in Unadilla could put the smaller banks in the area under increasing competitive disadvantage with the passage of time.

Governor Robertson concurred with the views expressed by Governor Mills and said that he too would deny the application. There was a clear history of State Bank, through mergers, increasing the concentration of commercial banking resources in the general area. In this particular case there was a lack of need for the merger, and a lack of benefits that could be derived by the community, sufficient to offset the further tendency toward concentration.

Governors Shepardson, King, and Balderston and Chairman Martin also indicated that they would disapprove the application, general agreement being inferred with the views expressed by Governors Mills and Robertson.

Thereupon, the application of State Bank of Albany to merge with The Unadilla National Bank was denied by unanimous vote. It was understood that an order and statement reflecting this decision would be prepared for the Board's consideration.

Messrs. Hill and Hunter withdrew from the meeting at this point.

Banking Markets Unit. There had been distributed a memorandum dated April 12, 1963, from Mr. Noyes, Director, Division of Research and Statistics, recommending establishment of three additional economist positions in the Banking Markets Unit. The memorandum outlined the nature of work being handled and discussed the problem of an expanding workload resulting from additional responsibilities that were being assigned to the Unit. Also discussed in some detail was the proposed staff organization if the three additional economist positions were authorized by the Board. This would include the use for temporary periods of persons on loan from other Board divisions or from Federal Reserve Banks as well as the services of consultants.

A memorandum dated April 15, 1963, from the Office of the Controller, which also had been distributed, concurred in the Research Division's proposal to increase the staff of the Banking Markets Unit. However, it was recommended that the increase be accomplished by the transfer of vacant positions from elsewhere within the Division to the Banking Markets Unit at the time appointments to the Unit were made. It was pointed out that this procedure would permit reappraisal of staffing requirements by the particular section from which a position had been transferred before a recommendation was made to reestablish the transferred position. This proposal was being made to reduce the number of unfilled vacancies in the budget of the Research Division; in the past several years the Division had underexpended its budget significantly because of inability to fill budgeted positions.

In discussion, Governor Shepardson indicated that he felt the scope of the work being undertaken by the Banking Markets Unit justified approval of the additional staff positions. He went on to note that there had persistently been a number of vacancies in the Research Division. The proposal made by the Office of the Controller to transfer certain existing vacant positions, rather than to create new positions, therefore seemed practical. If and when someone was found to fill a certain position that had been transferred to the Banking Markets Unit, consideration could be given to reestablishing the position.

Mr. Holland, commenting in supplementation of the information contained in the Research Division's memorandum, expressed the view that administrative arrangements were of secondary importance to the major concern of the Division, which was to keep the recruiting effort moving forward in an orderly and planned fashion. There were at present twelve vacancies at the professional level, all of which represented functions that should be performed. In the circumstances, the Research Division was not doing certain jobs, the performance of which would make its operations tighter and more sound. In recommending three additional economist positions for the Banking Markets Unit, the Division was seeking to make that operation more effective. While the Division felt that it could operate under the type of administrative arrangement proposed by the Office of the Controller, this was with the understanding that such an arrangement would not preclude a continuation of efforts to recruit personnel for vacant positions currently included in the budget.

Governor Shepardson agreed that the proposed administrative arrangement need not interfere with the recruiting and employment of suitable persons as they could be located. It simply obviated the necessity of adding positions to the budget as long as a backlog of vacant positions existed within the Division.

Following further discussion, the recommendation to establish three additional economist positions in the Banking Markets Unit was approved, with the understanding that those positions would be transferred from existing vacancies within the Division of Research and Statistics but that this administrative arrangement would not preclude the Research Division from actively seeking to recruit and employ appropriate personnel to fill the vacant positions now provided for in the budget.

Messrs. Johnson, Connell, Brill, Conkling, Millea, Smith (Research), Veenstra, and Kakalec then withdrew and Messrs. O'Connell, Assistant General Counsel, Smith, Assistant Director, Division of Examinations, and Doyle, Attorney, Legal Division, entered the room.

Bankers Trust-Farmingdale question (Item No. 19). There had been distributed a memorandum from the Legal Division dated April 17, 1963, regarding an application pending before the Comptroller of the Currency under the Bank Merger Act by First National Bank of Farmingdale, Farmingdale, New York, a newly-organized national bank, to acquire the assets and assume the liabilities of The First National Bank of Farmingdale, an existing national bank in Nassau County, New York. The stock of the new bank was to be purchased by BT New York Corporation, a wholly-owned subsidiary of Bankers Trust Company, New York, New York, a State member bank of the Federal Reserve System, which raised the question whether this transaction would violate the twentieth paragraph of section 9 of the Federal Reserve Act, which makes applicable to State member banks the same limitations and conditions as to purchases of corporate stock that are applicable to national banks under section 5136 of the Revised Statutes.

The memorandum discussed this question at some length, indicating that it involved an interpretation of a provision of section 5136 that provides that "Except as hereinafter provided or otherwise permitted by law, nothing herein contained shall authorize the purchase by the association (a national bank) for its own account of any shares of stock of any corporation." It was the conclusion of the Legal Division that Bankers Trust Company would be prohibited from itself purchasing the stock of a national bank, and that Bankers Trust's subsidiary, BT New York Corporation, would be prohibited from lawfully purchasing stock of First National Bank of Farmingdale.

The Legal Division's memorandum noted that the question of the proposed stock purchase had been discussed informally by the Comptroller of the Currency with Chairman Martin on February 28, 1963. On March 6, Bankers Trust Company and the Comptroller of the Currency were advised by the Board that this matter was under consideration. Subsequently, on March 11, 1963, the Comptroller wrote to Chairman Martin and inquired whether the Comptroller was correct in his understanding that the Board "reserves to itself the right to interpret all sections of the National Banking Laws and regulations issued by the Comptroller of the Currency in their application to State member banks as it reserves the right to interpret section 5136 of the Revised Statutes by virtue of the twentieth paragraph of section 9 of the Federal Reserve Act, as it applies to State member banks." It was concluded by the Legal Division that, as a matter of principle and in conformity with the practice followed by the Board for many years, the Board might properly interpret the stock-purchase provision of section 5136 as applied to State member banks by section 9 of the Federal Reserve Act. However, since consistency of interpretations was clearly desirable, efforts should be made as far as possible to achieve that end.

Aside from the foregoing questions, there were two other questions that the proposed stock purchase raised, and these were also discussed in the memorandum. One was whether the continued holding by Bankers Trust Company of stock of BT New York Corporation was in itself a violation of section 5136, since BT New York Corporation was organized by Bankers Trust in 1952 to acquire and liquidate certain oil properties pledged as collateral for a defaulted loan made by Bankers Trust, which salvage operation had now been completed. The Legal Division considered it questionable whether Bankers Trust could lawfully continue to hold such stock indefinitely.

Another question was whether, if the proposed transaction would not violate section 5136, it required the approval of the Board of Governors as well as the Comptroller of the Currency under the Bank Merger Act, in view of the fact that the Act requires the Board's approval for the acquisition by a State member bank, either directly or indirectly, of the assets of another bank. The Legal Division had concluded that if it should be determined by the Board that the proposed transaction would not violate section 5136, the proposed acquisition of assets of The Farmingdale National Bank would not require approval by the Board in addition to approval by the Comptroller of the Currency.

The recommendation in the memorandum from the Legal Division was that there be sent to the Comptroller of the Currency a letter, in form submitted with the memorandum, that would constitute a reply to his letter of March 11, 1963, and invite his views on the conclusions reached with respect to the Bankers Trust Company matter. As an alternative, there was submitted a letter that might be sent to Bankers Trust Company.

At the Board's request, Mr. Hackley commented in some detail on the questions covered in the memorandum, the conclusions reached by the Legal Division, and the reasons therefor. He noted that the New York State banking authorities reportedly were deferring action on the purchase of stock by Bankers Trust Company's subsidiary pending the availability of the Board's opinion, that the Comptroller of the Currency similarly was deferring a decision on the takeover of The First National Bank of Farmingdale by the newly-organized First National Bank of Farmingdale, and that Bankers Trust Company was anxious to receive the Board's opinion. He further stated that if the Board agreed with the conclusions of the Legal Division and if Bankers Trust Company should be advised accordingly, the member bank quite possibly might elect to contest the opinion in some manner. If Bankers Trust Company should carry through the proposed transaction despite the Board's opinion, the enforcement measures available to the Board would be to bring proceedings either to terminate the bank's membership in the Federal Reserve System or to remove its officers or directors.

Mr. Hackley also said that the Legal Division, upon further consideration, wished to modify the recommendation contained in its memorandum. It would now recommend sending to the Comptroller of the Currency a brief letter inviting his views on the proposed letter to Bankers Trust Company, a copy of which would be enclosed. This would leave for separate correspondence the question raised in the Comptroller's letter of March 11 concerning the Board's position on its right to interpret provisions of the national banking laws and the Comptroller's regulations in their applicability to State member banks.

From the discussion that followed, it appeared that the members of the Board concurred in the conclusions of the Legal Division regarding the applicability of the provisions of section 5136 to the proposed Bankers Trust-Farmingdale transaction, as expressed in the draft of letter to Bankers Trust Company. (Governor Mills indicated that he found the Legal Division's memorandum persuasive, yet entertained some reservations. He directed to Mr. Hackley a number of questions relating generally to the terms of the statute and their applicability to cases that had arisen in the past, and in response Mr. Hackley amplified his earlier comments on the Legal Division's position.)

The discussion then turned to the question whether the proposed letter should be sent at this time to Bankers Trust Company or whether the Comptroller of the Currency should be given an opportunity to comment before the letter was sent. Members of the legal staff recommended the latter procedure in spite of the further delay that would be involved.

Although the Comptroller had initially expressed the opinion that no violation of section 5136 would be involved, there was the possibility that a review of the points brought out in the draft of letter to Bankers Trust Company would lead him to alter his earlier opinion. Even if it did not, nothing would have been lost, and the Board would have evidenced its desire to work toward a consistency of interpretation of the statutes.

The decision of the Board was to follow the procedural recommendation of the Legal Division; a copy of the letter sent to the Comptroller of the Currency in conformity with that decision is attached as Item No. 19. It was understood that if further inquiries should be received by the staff from Bankers Trust Company, reply would be made in terms that the Board continued to have the matter under consideration.

Governor King withdrew from the meeting during the foregoing discussion; before leaving he indicated that he would favor the procedure of sending a draft of the proposed letter to Bankers Trust Company to the Comptroller of the Currency for comment.

At the conclusion of the discussion Messrs. Hexter, O'Connell, Hooff, Goodman, Leavitt, and Doyle withdrew from the meeting.

Statement on H. R. 5130. Pursuant to the understanding at the meeting on April 17, 1963, there had been distributed a revised draft of statement on H. R. 5130 (a bill that would increase the insurance limit from $10,000 to $25,000 on bank deposits and savings and loan shares) to be presented by Vice Chairman Balderston before the House Banking and Currency Committee on April 25.

Comments by members of the Board indicated that the revised draft of statement was regarded as generally appropriate, and it was understood that any specific suggestions regarding the statement would be sent direct to Governor Balderston.

Disappearance of securities at San Francisco Bank. Mr. Sherman reported a telephone call from Mr. Swan, President of the Federal Reserve Bank of San Francisco, transmitting a request by a staff member on behalf of a Subcommittee of the House Banking and Currency Committee for (1) a report dated August 20, 1962, prepared by Mr. Smith, Assistant Director of the Board's Division of Examinations, covering the disappearance of certain Treasury certificates of indebtedness from the vault of the San Francisco Bank, and (2) the Reserve Bank's copies of the Board's reports of examination of the Federal Reserve Bank of San Francisco made in 1961 and 1962. It was understood that these documents were being requested for use of the Subcommittee in connection with preparations being made by the Subcommittee for a hearing in San Francisco to begin on Monday, April 22, concerning the loss of the securities.

Following discussion, it was understood that Mr. Swan would be advised that the Board had authorized the furnishing of the documents, with the understanding that the examination reports were available on a confidential basis only to members of the Congress and their staff.

Mr. Smith then withdrew from the meeting.

Testimony by bank examiner. At its meeting on October 25, 1962, the Board interposed no objection to an examiner of the Federal Reserve Bank of Dallas testifying at a trial of criminal charges involving a disappearance of funds of First State Bank, Premont, Texas, or to his furnishing to the court, if requested, a memorandum he had written regarding the incident in question. The examiner was expected to testify to the effect that during the December 1961 examination of the bank five promissory notes had been placed in the bank's vaults, which notes were removed under circumstances tending to incriminate an officer of the bank. (The bank's operations were suspended effective December 30, 1961.)

Mr. Shay now reported that he had received a telephone call from Mr. Rudy, General Counsel of the Federal Reserve Bank of Dallas, who stated that the examiner had been subpoenaed to testify on Monday, April 22, 1963, at a trial of perjury charges growing out of the criminal prosecution on which the examiner testified in October 1962. The perjury charges were against the attorney for the officer of First State Bank, and the examiner possibly might be asked to produce the memorandum concerning the disappearance of the five promissory notes. Mr. Rudy raised the question whether the Board would object to the examiner's testifying at the perjury trial.

There being no objection, it was understood that Mr. Shay would advise General Counsel Rudy to such effect.

The meeting then adjourned.

Secretary's Notes: Pursuant to the discussion at the meeting on March 6, 1963, a letter was sent today over Chairman Martin's signature to Mr. H. H. Bennett, President, National Retail Merchants Association, with respect to the department store reporting program. A copy of this letter is attached as Item No. 20. There is also attached, as Item No. 21, a copy of a letter sent over Chairman Martin's signature to Mr. William N. Batten, President, J. C. Penney Company, regarding participation in a proposed national departmental reporting program.

The requirements contemplated by the Board's action on March 18, 1963, in approving the issuance of a preliminary permit to The Company for Investing Abroad, Philadelphia, Pennsylvania, having been completed, a letter was sent to that corporation on April 19, 1963, transmitting a final permit to commence business.

Pursuant to recommendations contained in memoranda from appropriate individuals concerned, Governor Shepardson today approved on behalf of the Board the appointment of the following persons to the Board's staff, effective the respective dates of entrance upon duty:

Bette Silver as Economist, Division of Research and Statistics, with basic annual salary at the rate of $8,045.

Henry F. Lee as Economist, Division of International Finance, with basic annual salary at the rate of $9,475.

Secretary

Item No. 1
4/19/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 19, 1963

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

Dear Mr. Timlen:

Receipt is acknowledged of your letter dated April 5, 1963, in which you indicated that the directors of your Bank had approved a request from the Center for Latin American Monetary Studies that Mr. John J. Clarke, Assistant General Counsel, lecture at the Center in Mexico City during May of this year, and that they had granted Mr. Clarke a leave of absence for a period of two weeks, plus travel time, for this purpose. The Board of Governors has no objection to this proposal.

Very truly yours,

**(Signed) Merritt Sherman**

Merritt Sherman,
Secretary.

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

Item No. 2
4/19/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 19, 1963

Board of Directors,
Manufacturers Hanover Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to November 1, 1963, the time within which Manufacturers Hanover Trust Company, New York, New York, may establish a branch at 41-01 Kissena Boulevard, Flushing, Borough of Queens, New York, New York, under authority granted in the Board's letter dated August 4, 1961.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Item No. 3
4/19/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 19, 1963

AIR MAIL

Mr. Paul C. Stetzelberger, Vice President,
Federal Reserve Bank of Cleveland,
Cleveland 1, Ohio.

Dear Mr. Stetzelberger:

This refers to your letter of March 25, 1963, enclosing the form of a time certificate of deposit used by The Oberlin Savings Bank Company, Oberlin, Ohio, and requesting the Board's opinion as to whether the terms of the certificate comply with Regulation Q.

The instrument has a one-year maturity with automatic renewals for similar periods unless presented for redemption within 10 days, and provides for the payment of interest semiannually at the rate of 4 per cent per annum. In addition, it is stated that the funds may be withdrawn by the depositor between annual maturity dates "upon the terms and conditions stated in the supplement to Regulation Q, section 217.6."

Section 217.6 prescribes the maximum rates of interest that may be paid on time certificates depending upon their maturity or the notice of withdrawal actually given. However, these provisions are in the nature of limitations; they are not suitable for describing withdrawal privileges in deposit contracts and, therefore, reference to them for this purpose is inappropriate. In addition, the certificate is fatally defective as it does not "on its face" set forth all the provisions of the contract regarding repayment of the deposit, as is required by section 217.1(c) of the Regulation, and, therefore, would not clearly acquaint the depositor with his rights of withdrawal.

Even if appropriate provisions with respect to withdrawal privileges are included on the face of the certificate, the provision for payment of interest semiannually at the 4 per cent rate may result in confusion and misunderstanding if a withdrawal is made upon 30-day notice after the semiannual interest is paid since interest would have to be recomputed for the whole term of the certificate and confined to the one per cent rate permitted for a 30-day time deposit. This would necessitate recovery of some interest paid or reduction in the principal returned to the depositor. Therefore, a provision providing for the payment of interest semiannually at a rate of 4 per cent per annum should be amplified to indicate that interest may have to be recomputed if a withdrawal privilege is exercised.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
4/19/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 19, 1963

Board of Directors,
The Farmers & Merchants Bank of Craig County,
New Castle, Virginia.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the application of The Farmers & Merchants Bank of Craig County, New Castle, Virginia, for stock in the Federal Reserve Bank of Richmond, subject to the numbered conditions hereinafter set forth.

1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.

2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.

In connection with the foregoing conditions of membership, particular attention is called to the provisions of the Board's Regulation H, regarding membership of State banking institutions in the Federal Reserve System, with especial reference to Section 208.7 thereof. A copy ofthe regulation is enclosed.

If at any time a change in or amendment to the bank's charter is made, the bank should advise the Federal Reserve Bank, furnishing copies of any documents involved, in order that it may be determined whether such change affects in any way the bank's status as a member of the Federal Reserve System.

Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by the board of directors and a certified copy of such resolution should be transmitted to the Federal Reserve Bank. Arrangements will thereupon be made to accept payment for an appropriate amount of Federal Reserve Bank stock, to accept the deposit of the required reserve balance, and to issue the appropriate amount of Federal Reserve Bank stock to the bank.

The time within which admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to 45 days from the date of this letter, unless the bank applies to the Board and obtains an extension of time. When the Board is advised that all of the requirements have been complied with and that the appropriate amount of Federal Reserve Bank stock has been issued to the bank, the Board will forward to the bank a formal certificate of membership in the Federal Reserve System.

The Board of Governors sincerely hopes that you will find membership in the System beneficial and your relations with the Reserve Bank pleasant. The officers of the Federal Reserve Bank will be glad to assist you in establishing your relationships with the Federal Reserve System and at any time to discuss with representatives of your bank means for making the services of the System most useful to you.

Very truly yours,

**(Signed) Kenneth A. Kenyon**

Kenneth A. Kenyon,
Assistant Secretary.

Enclosure

Item No. 5
4/19/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 19, 1963

Board of Directors,
The Archer National Bank of Chicago,
Chicago, Illinois.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to The Archer National Bank of Chicago to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective with the first biweekly reserve computation period beginning after the date of this letter.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

**(Signed) Merritt Sherman**

Merritt Sherman,
Secretary.

Item No. 6 1285
4/19/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 19, 1963

Mr. Leland Ross, Vice President,
Federal Reserve Bank of Chicago,
P. O. Box 834,
Chicago 90, Illinois.

Dear Mr. Ross:

Reference is made to your letter of March 28, 1963, concerning an application by The Archer National Bank of Chicago, Chicago, Illinois, for permission to maintain the same reserves against deposits as are required to be maintained by banks located outside of reserve cities, to be effective as of November 3, 1962.

After consideration of the information submitted, the Board of Governors concurs in the recommendation of your Bank that the subject bank be permitted to carry reduced reserves. The Board is of the opinion, however, that because the applicant has already been included as a reserve city bank in published statistics, the effective date should not be made retroactive. Therefore, pursuant to the provisions of Section 19 of the Federal Reserve Act, the Board grants permission to The Archer National Bank of Chicago, Chicago, Illinois, to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective with the first biweekly reserve computation period beginning after the date of this letter.

In the circumstances set forth in your letter, the Board authorizes your Bank to waive assessment of any penalties incurred by the subject bank for reserve deficiencies during reserve computation periods since November 3, 1962, on a reserve city basis, and until authorization for reduced reserves is effective. It is understood from your Bank's telegram of April 5, 1963, that these penalties totaled $1,090.56 through April 3.

Please forward the enclosed letter addressed to the subject bank; a copy is enclosed for your files.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures

Item No. 7
4/19/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 19, 1963

Board of Directors,
First State Bank of Red Bud,
Red Bud, Illinois.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an investment in bank premises by First State Bank of Red Bud, Red Bud, Illinois, of $85,000. This approval includes $15,000 for the cost of land adjoining present banking quarters and for other estimated costs in connection with the bank's proposed expansion and modernization plan.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 8
4/19/63

ADDRESS OFFICIAL CORRESPONDENCE TO THE BOARD

April 19, 1963

Board of Directors,
Sidell State Bank
Sidell, Illinois.

Gentlemen:

The Federal Reserve Bank of Chicago has forwarded to the Board of Governors Vice President and Cashier Cooper's letter dated April 4, 1963, together with the accompanying resolution dated March 28, 1963, signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

The Board of Governors waives the requirement of six months' notice of withdrawal. Accordingly, under the provisions of Section 208.10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date that notice of intention to withdraw from membership was given. Upon surrender to the Federal Reserve Bank of Chicago of the Federal Reserve Bank stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of Chicago.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

Item No. 9
4/19/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 19, 1963

Organization Committee,
Bank of Rangely,
Rangely, Colorado.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the application made on behalf of Bank of Rangely, Rangely, Colorado, for stock in the Federal Reserve Bank of Kansas City, effective if and when the bank opens for business under appropriate State authorization, subject to the numbered conditions hereinafter set forth.

1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.

2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.

3. At the time of admission to membership, such bank shall have paid-in and unimpaired capital stock of not less than $75,000, and other capital funds of not less than $75,000.

In connection with the foregoing conditions of membership, particular attention is called to the provisions of the Board's Regulation H, regarding membership of State banking institutions in the Federal Reserve System, with especial reference to Section 208.7 thereof. A copy of the regulation is enclosed.

It is noted that under its charter the bank may exercise trust powers and it is understood that the bank intends to accept fiduciary business upon admission to membership. It will be expected, of course, that when such business is undertaken, your bank will be equipped to handle it in conformity with recognized principles of sound fiduciary administration.

If at any time a change in or amendment to the bank's charter is made, the bank should advise the Federal Reserve Bank, furnishing copies of any documents involved, in order that it may be determined whether such change affects in any way the bank's status as a member of the Federal Reserve System.

Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by the board of directors after the bank's charter has been issued and a certified copy of such resolution should be transmitted to the Federal Reserve Bank. Arrangements will thereupon be made to accept payment for an appropriate amount of Federal Reserve Bank stock, to accept the deposit of the required reserve balance, and to issue the appropriate amount of Federal Reserve Bank stock to the bank.

The time within which admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to 45 days from the date of this letter, unless the bank applies to the Board and obtains an extension of time. When the Board is advised that all of the requirements have been complied with and that the appropriate amount of Federal Reserve Bank stock has been issued to the bank, the Board will forward to the bank a formal certificate of membership in the Federal Reserve System.

The Board of Governors sincerely hopes that you will find membership in the System beneficial and your relations with the Reserve Bank pleasant. The officers of the Federal Reserve Bank will be glad to assist you in establishing your relationships with the Federal Reserve System and at any time to discuss with representatives of your bank means for making the services of the System most useful to you.

Very truly yours,

**(Signed) Kenneth A. Kenyon**

Kenneth A. Kenyon,
Assistant Secretary.

Enclosure

Item No. 10
4/19/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 19, 1963

Board of Directors,
Heights State Bank,
Houston, Texas.

Gentlemen:

The Board of Governors of the Federal Reserve System has received the request of your bank for approval of recent expenditures totaling $431,081.35 for bank premises. Section 24A of the Federal Reserve Act requires a State member bank to obtain the approval of the Board of Governors for an investment in bank premises which, when added to the carrying value of present investments in such premises, will aggregate an amount in excess of the bank's capital stock. Since the expenditures in this case have already been made, the prior approval contemplated by the statute cannot be given.

However, if a timely request had been made for the required approval, it appears on the basis of information before the Board that such approval would have been granted. Accordingly, the Board offers no objection to the expenditures totaling $431,081.35 for the recently constructed new banking quarters.

In view of these recent expenditures, the directors are urged to consider augmenting the capital account through the sale of additional stock.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 11
4/19/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 19, 1963

Board of Directors,
First State Bank of Lynwood,
Lynwood, California.

Gentlemen:

The Federal Reserve Bank of San Francisco has forwarded to the Board of Governors President Greenberg's letter dated April 1, 1963, together with the accompanying resolution dated January 17, 1963, signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six months' notice of such withdrawal.

The Board of Governors waives the requirement of six months' notice of withdrawal. Under the provisions of Section 208.10(c) of the Board's Regulation H, your institution may accomplish termination of its membership at any time within eight months from the date that notice of intention to withdraw from membership was given. Upon surrender to the Federal Reserve Bank of San Francisco of the Federal Reserve stock issued to your institution, such stock will be canceled and appropriate refund will be made thereon.

It is requested that the certificate of membership be returned to the Federal Reserve Bank of San Francisco.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item No. 12
4/19/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 19, 1963

Board of Directors,
The Sumitomo Bank of California,
San Francisco, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by The Sumitomo Bank of California in the vicinity of 20th and Franklin Streets, Oakland, California, provided the branch is established within one year from the date of this letter.

In approving this application, the Board notes that definite steps are being taken to improve your bank's capital position through the sale of new stock.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1846), should be followed.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 13
4/19/63

OFFICE OF THE CHAIRMAN

April 19, 1963.

The Honorable Wright Patman, Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

This is in response to your letter of April 11, 1963, requesting that the Board process and tabulate the remaining member bank reports, received in response to the chain banking survey which you initiated during the 87th Congress while Chairman of the Select Committee on Small Business, in the manner previously completed for the 200 largest banks. The Board will continue to cooperate in this effort.

It is noted that details of the tabulations will be handled on a staff level, and staff arrangements have been made to have listings of individual banks showing per cent of shares held by each of the 20 largest stockholders furnished to your staff, a District at a time as each is completed, beginning toward the end of May.

Staff estimates indicate that reports of the approximately 5,900 smaller member banks will be edited, processed, and on computer tape ready for tabulation, about the end of June. The last stockholder listing will be furnished soon thereafter. It is, of course, possible that the demands on the tabulating equipment will be increased more than proportionally in handling 6,100 bank reports, as compared with the previous handling of 200 reports, which could entail unforeseen mechanical problems and difficulties that were not encountered in the first 200.

Because of the greater number of banks involved and the less prominent position of stockholders of the smaller banks, it will not be possible to match stockholders appearing on one or more reports with dissimilar addresses and/or variations in names (e.g., John Smith at his home address and J. Smith at his business address).

Sincerely yours,

Wm McC. Martin, Jr.

Wm. McC. Martin, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 14
4/19/63

# Office Correspondence

Date April 9, 1963.

To Board of Governors

From Ralph A. Young

Subject: System participation in the Seventh Meeting of Central Bank Technicians.

On February 27, 1963, the Board of Governors approved System participation in this meeting and the dispatch of a letter to the host officials in Brazil accepting the invitation. The Board was advised that detailed arrangements regarding the composition of the System's delegation could be worked out later. The purpose of this memorandum is to make a recommendation regarding the size and composition of the System's delegation. While it is recognized that the meeting is still several months in the future and that circumstances may necessitate changes, formal Board approval at this time would assist the staff in making the necessary plans and arrangements.

At the two last preceding meetings of the technicians, the System was represented by delegations of seven persons: three from the Board's staff, three from the Federal Reserve Bank of New York, and one from another Federal Reserve Bank (Boston and Chicago). In view of the increasing importance being given to Latin American affairs by the U.S. Government, and the resulting desirability of having a particularly strong Federal Reserve delegation to the forthcoming meeting, I recommend that the Board approve the participation of the following staff members of the System in this meeting: Mr. Guy E. Noyes, head of the delegation; Mr. David Grove, Vice President, Federal Reserve Bank of San Francisco; Mr. Frank Schiff, Miss Madeline McWhinney, and Mr. Scott Pardee, Federal Reserve Bank of New York; and Messrs. Robert L. Sammons, and Reed J. Irvine of the Board's staff. It may also prove desirable and practicable for me to attend the sessions at least part of the time, and I understand that there is a possibility that Governor Mitchell may also wish to attend as an observer.

It is, therefore, recommended that the Board authorize travel and per diem allowances according to standardized Government travel regulations (or actual expenses, if necessary to avoid loss to the employee) for the trip to Rio de Janeiro and attendance at the sessions for the members of the Board's staff named above.

The Board's attention is also invited to the fact that, in connection with previous meetings of the central bank technicians, the Board authorized a representation allowance not to exceed $500, with the understanding that the furnishing of receipts under this authorization would not be required, although such expenditures would be reported to the Board. I would favor a similar authorization for this meeting.

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

Item No. 15
4/19/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

April 19, 1963.

Mr. Frank L. King,
Chairman of the Board,
Western Bancorporation,
600 South Spring Street,
Los Angeles 14, California.

Dear Mr. King:

This is in reply to your letter of February 27, presenting two questions relating to Western Bancorporation International Bank, the Edge Act banking subsidiary of Western Bancorporation.

Your first inquiry relates to WBIB "acting as agent for affiliated banks in cases involving acceptance financing". Section 211.6(c) of Regulation K describes a number of classes of transactions, some of which involve acceptance financing, that ordinarily are considered permissible for an Edge Act banking corporation as "incidental to [its] international or foreign business". If the functions performed by WBIB, as agent for affiliated banks, fall within any of these categories, the transactions would be permissible as far as Regulation K is concerned.

The other aspect of this question is whether the proposed arrangements, which are not described in detail, would be permissible for the affiliated banks for which WBIB would be acting as agent. In this connection, as you know, one question would be whether the arrangement involved any extension of credit or other action by a banking subsidiary of your Corporation in violation of section 6(a) of the Bank Holding Company Act. A second inquiry would be whether acceptance transactions by a bank in California, for example, through an agent in New York, would be in conformity with applicable provisions of law relating to the place or places at which the business of the bank may be transacted.

The foregoing comments are necessarily general, since the exact nature of the contemplated transactions was not described in your letter. If you should decide to submit complete details concerning specific transactions (even if hypothetical), including copies of all forms and instruments involved, the Board would give early consideration to your request for a ruling.

Your second question is whether a banking subsidiary of a bank holding company may own an Edge Act corporation. Section 6(a) of the Bank Holding Company Act prohibits a holding company bank from investing any of its funds in the capital stock of any other subsidiary of its holding company. It is the position of the Board that this statutory provision makes it unlawful for a banking subsidiary of a holding company to purchase stock of an Edge Act corporation if 25 per cent or more of the latter's stock is owned, or will be owned, by the holding company system, since that would constitute the Edge Act corporation a "subsidiary" as defined in section 2(d) of the Holding Company Act.

The Board has repeatedly emphasized, in its reports to Congress, the desirability of repealing or, at least, amending section 6 of the Holding Company Act, on the ground that it constitutes a severe and unnecessary restriction upon the operation of banks controlled by holding companies. However, until Congress takes action in accordance with this recommendation, the Board has no alternative but to administer the Act in its existing form.

Very truly yours,

**(Signed) Merritt Sherman**

Merritt Sherman,
Secretary.

Item No. 16
4/19/63

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of
NORFOLK COUNTY TRUST COMPANY
for approval of consolidation with
Wellesley Trust 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 Norfolk County Trust Company, Brookline, Massachusetts, a State member bank of the Federal Reserve System, for the Board's prior approval of the consolidation of that bank and Wellesley Trust Company, Wellesley, Massachusetts, also a member of the Federal Reserve System, under the charter and title of the former. As an incident to the consolidation, the two offices of Wellesley Trust Company would be operated as branches of Norfolk County 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, 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 19th day of April, 1963.

By order of the Board of Governors.

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

Voting against this action: Governors Robertson and Mitchell.

Absent and not voting: Governor King.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Item No. 17
4/19/63

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

APPLICATION BY NORFOLK COUNTY TRUST COMPANY
FOR APPROVAL OF CONSOLIDATION WITH
WELLESLEY TRUST COMPANY

STATEMENT

Norfolk County Trust Company, Brookline, Massachusetts ("Norfolk Trust"), a State member bank of the Federal Reserve System, with deposits of $118.5 million as of December 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 the consolidation of that bank and Wellesley Trust Company, Wellesley, Massachusetts ("Wellesley Trust"), also a member bank, with deposits of $8.9 million as of the same date. The banks would consolidate under the charter and title of Norfolk Trust. As an incident to the consolidation, the two offices of Wellesley Trust would become branches of the resulting bank, increasing the number of authorized offices of Norfolk Trust from 25 to 27.

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 of Norfolk Trust are satisfactory. The bank's capital structure is adequate, its management is competent, and its earnings prospects are favorable. These attributes would also characterize the resulting bank.

Wellesley Trust's financial history and condition are generally satisfactory, and it has an adequate capital structure. Consummation of the proposed consolidation would solve the problems that have arisen at Wellesley Trust largely from its unsuccessful efforts to correct the existing lack of depth in management and a persistent lag in the rate of its deposit and loan growth, compared to its nearest competitor. If effectuated, the proposal also would provide a basis for needed improvement in the earnings of the Wellesley Trust offices, which have been substantially below the average for banks of comparable size in the First Federal Reserve District.

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

Convenience and needs of the communities. - Norfolk Trust has its main office and one branch in Brookline (1960 population 54,000). Brookline, in Norfolk County, is contiguous to Boston in Suffolk County. The 20 other branches operated by the bank also are in Norfolk County, most of which lies within the Boston Standard Metropolitan Statistical

Area ("SMSA"). The bank has authorizations for the establishment of three additional branches in the County. The service area[1] of Norfolk Trust, which is primarily industrial and residential, and which contains over one million people, includes all of Norfolk County and portions of Suffolk, Middlesex, and Plymouth Counties.

Both offices of Wellesley Trust are in Wellesley (1960 population 26,000), which is situated in Norfolk County 13 miles southwest of Boston and 9 miles west of Brookline. Wellesley is a relatively high income area which is chiefly residential. In addition to Wellesley, the service area of Wellesley Trust (with over 181,000 inhabitants), includes Needham and a small part of Dover, both of which also are in Norfolk County, and Newton, Weston, and Natick, which are parts of Middlesex County. All of Wellesley Trust's service area, which had a population increase of 26 per cent during the past decade, lies within the Boston SMSA.

The proposed transaction would affect primarily the banking convenience and needs of the Wellesley area. The only other commercial bank in Wellesley is Wellesley National Bank, which has four offices and deposits more than three times greater than those of Wellesley Trust. Wellesley National Bank's deposits were $27.4 million as of December 28, 1962. The proposed consolidation would result in a substantial increase in the present loan limit at the two offices of Wellesley Trust, and would be expected to make available at those offices broadened banking services, including trust facilities, automobile dealer financing, retail

1/ That area from which a bank obtains 75 per cent or more of its deposits of individuals, partnerships, and corporations.

credit services, the benefits of records mechanization, and various other specialized services. The result, therefore, would be to enhance the capability of the offices of Wellesley Trust as convenient alternative sources of bank credit and services in the area.

Competition. - The primary effect of the proposal on competition would occur in and around Wellesley.

The shortest distance between Wellesley Trust and Norfolk Trust is the 2-1/2 miles that separate the former's main office and one of the latter's three branches in Needham, which is contiguous to Wellesley. The record indicates, however, that the amount of business which each of the participating banks has secured from the area served principally by the other has been relatively small. Most of Wellesley Trust's business has originated in Wellesley, while the major portion of Norfolk Trust's business has come from the remainder of Norfolk County and from part of the city of Boston.

The rate of deposit growth at Wellesley Trust has been much slower over the past 12 years than that of Wellesley National Bank, the closest and keenest competitor of Wellesley Trust. For example, during that period Wellesley Trust's deposits increased by only 26 per cent, while those of Wellesley National Bank increased by 152 per cent. The expanded banking services and depth of management which would result from effectuation of the proposed consolidation would provide a basis for improving the growth record at the Wellesley Trust offices. While Norfolk Trust would acquire by the proposal a significantly smaller percentage of the banking resources in the Wellesley Trust service area than is held by Wellesley National Bank, the larger total resources of Norfolk Trust would enable it to compete effectively with Wellesley National Bank, which has indicated that increased local competition would be welcome.

Aside from the situation just related, consummation of the proposed consolidation would be expected to have little competitive effect upon either commercial or mutual savings banks in the service area of the resulting bank. The combined loans and deposits of individuals, partnerships, and corporations ("IPC deposits") of mutual savings banks in Norfolk County exceed those of the commercial banking offices in the County. Mutual savings banks compete aggressively for savings deposits and mortgage loans and, to some extent, for personal loans in the service area of Wellesley Trust. The office of one mutual savings bank in Wellesley has one-third of all IPC deposits held by banking offices in Wellesley.

Norfolk Trust is one of the nine subsidiary banks of Baystate Corporation, Boston, a registered bank holding company. Subsidiary banks of the holding company hold 40.9 per cent of the total commercial bank deposits in the service areas of the participating banks, 9.8 per cent of such deposits in the Boston SMSA, and 9.7 per cent of such deposits in the State. Effectuation of the proposed consolidation would increase these percentages, respectively, by only 2.3 per cent, 0.2 per cent, and 0.1 per cent. Neither is it believed to be of determinative significance with respect to this application that The First National Bank of Boston, the largest commercial bank in Massachusetts, owns directly 13.4 per cent of the stock of Baystate Corporation, and holds in a fiduciary capacity, directly and indirectly, slightly over 2 per cent of such stock. That

The First National Bank of Boston, which is actively engaged in correspondent banking, would hold large balances of other banks is to be expected. It would not seem important in this regard, therefore, that The First National Bank of Boston holds around 25 per cent of the total balances due to the holding company's subsidiary banks from all of their correspondent banks.

Summary and conclusion. - Consummation of the proposal would strengthen management, expand the banking services, and improve the earnings and growth prospects for the offices of Wellesley Trust. The benefits which would accrue from the transaction would more than offset the elimination of the modest amount of competition between the participating banks. Effective competition in the areas concerned from the several offices of noncommercial banking institutions with substantial resources may be expected to continue. The proposed consolidation should have no adverse effect upon these institutions or upon any of the commercial banks with offices in the areas involved, and should provide more effective competition in the service area of Wellesley Trust.

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

April 19, 1963.

Item No. 18
4/19/63

DISSENTING STATEMENT OF GOVERNOR ROBERTSON
WITH WHICH GOVERNOR MITCHELL CONCURS

I believe that in approving this consolidation the majority of the Board has failed to give appropriate weight to the heavy concentration of banking assets in the area concerned by the Baystate Corporation banks and to the close relationship between the Baystate group and The First National Bank of Boston.

First, as a result of this consolidation, the Baystate Corporation banks' share of the commercial bank deposits in the areas served by the participating banks will step up to over 43 per cent. Whenever concentration in banking reaches this order of magnitude, any increase therein, to be warranted, must be offset by greater benefits to the public than is true in this case.

Secondly, the fact that 13.4 per cent of the stock of Baystate Corporation is owned directly by The First National Bank of Boston should not be dismissed as unimportant. In fact, the total shares of Baystate Corporation owned or controlled directly or indirectly by The First National Bank of Boston amounts to over 15 per cent, which clearly might be sufficient to give the bank effective control over the holding company in certain circumstances. Some of this stock apparently was acquired as "salvage" for debts previously contracted during a period of about ten years following the enactment of the Banking Act of 1933. Parenthetically, it is to be noted that the Comptroller of the Currency has ruled that corporate stock acquired by a national bank in such circumstances should not be held for any longer period of time than proves to be necessary for its disposition for an amount equal to or reasonably near the amount of the indebtedness for which it was acquired (Digest of Opinions of the Office of the Comptroller of the Currency, par. 350).

Thirdly, The First National Bank of Boston, with deposits of around $1,700 million, and 33 banking offices, as the majority point out, is actively engaged in correspondent banking, so that the very substantial balances held by that bank for banks in the Baystate group might well be expected. This, however, does not negative the importance of these correspondent relationships, especially where, as previously indicated, the large correspondent bank, through stock ownership, also has an obvious position of influence with the holding company, itself.

In these circumstances, it is my view that the potential, if not the actual, adverse competitive effects flowing from the proposal far outweigh the benefits that may be expected to result therefrom.

On the basis of these considerations I would disapprove the application.

April 19, 1963.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 19
4/19/63

OFFICE OF THE CHAIRMAN

April 19, 1963.

The Honorable James J. Saxon,
Comptroller of the Currency,
Treasury Department,
Washington 25, D. C.

Dear Jim:

This refers to your discussion with me on February 28, 1963, and my letter to you of March 6, 1963, regarding the proposed acquisition of the assets of The First National Bank of Farmingdale, Farmingdale, New York, by a newly-organized bank, First National Bank of Farmingdale, a proposal now pending before you for approval under the Bank Merger Act. In my letter of March 6, I indicated that the Board's staff was studying the question whether the acquisition of the stock of the new bank by BT New York Corporation ("BTNY"), a wholly-owned subsidiary of Bankers Trust Company, a State member bank, would violate the twentieth paragraph of section 9 of the Federal Reserve Act, which makes applicable to State member banks the same limitations and conditions as to purchases of corporate stocks as are applicable to national banks under section 5136 of the Revised Statutes.

This question is one of unusual difficulty and importance; and the Board has carefully considered arguments in support of the validity of the proposed transaction presented by Counsel for Bankers Trust Company in a letter of March 15, 1963, and in a memorandum prepared by the law firm of White & Case, copies of which are enclosed for your information.

On the basis of its study of the matter, the Board is inclined to the views indicated in the enclosed draft of a proposed letter to Bankers Trust Company. However, since the same question could arise in other circumstances with respect to a national bank and in order, if possible, to achieve consistent interpretations of the law as to both national banks and State member banks, the Board would be glad to have the benefit of your comments before reaching a decision.

As indicated in the enclosed draft of letter, the Board is especially concerned that the transaction here contemplated would be inconsistent with the general intent of Congress, evident throughout the banking laws, that a Federally supervised bank should not acquire control of additional banking offices without approval by the Federal banking agency responsible for the supervision of the particular bank.

The Bank Merger Act clearly contemplates that a particular merger shall be subject to approval by the Federal bank supervisory authority having jurisdiction over the "acquiring, assuming, or resulting bank". This objective could be defeated if the transaction here proposed should be considered permissible and should be considered a precedent. For example, if a national bank in New York City should seek the permission of the Comptroller of the Currency to merge with or acquire the assets of X State Bank and if the Comptroller should disapprove the application, it would then be possible for the national bank to have a subsidiary acquire the stock of an existing or newly-organized State bank in the same community and that bank could then, with the approval of the Board of Governors or the FDIC, acquire the assets of the X State Bank, despite the Comptroller's prior disapproval of the transaction. Indeed, if the subsidiary's purchase of stock is not regarded as a purchase by the national bank, the subsidiary could simply acquire the stock of the X State Bank and thus accomplish in effect an expansion of the number of offices of the national bank without approval by any Federal banking agency.

We would, of course, appreciate having your comments as promptly as possible.

Sincerely yours,

Bill

Wm. McC. Martin, Jr.

Enclosures

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 20
4/19/63

OFFICE OF THE CHAIRMAN

April 19, 1963.

Mr. H. H. Bennett, President,
National Retail Merchants Association,
c/o Zion's Cooperative Mercantile Institution,
Salt Lake City, Utah.

Dear Mr. Bennett:

Your letter of December 24, 1962, presented two principal suggestions in connection with the Federal Reserve's conclusions regarding changes to be made in the department store reports, as transmitted to you in my letter of December 5.

1. You agreed as to the desirability of a new national departmental report, but you stated that a report covering 25 departments would be far too restricted; and you urged consideration of using the breakdown established for the 1963 Census of Business (approximately 50 departments).

2. With respect to our conclusion that we must discontinue the present long departmental sales and stocks report, you urged that the proposed date for its discontinuance be set for January 31, 1964, rather than January of 1963, the time that had been contemplated by the Federal Reserve. You suggested that the later date would give the trade and other users of these statistics opportunity to evaluate their needs, and also that by that time a useful national departmental series should have been established.

In addition to these two specific suggestions you expressed support of a study of the possibility of a new merchandise series report, and you offered the active assistance of your association in a program of maintenance and improvement of the present weekly and monthly department store sales reports.

I understand that this whole subject has been discussed by members of the Committee of Five at meetings held in January and March, which were also attended by Mr. Myron S. Silbert, Chairman of the NRMA Committee on Department Store Statistics, and Mr. Howard C. Grieves, Assistant Director of the Bureau of the Census.

In view of your letter, the Federal Reserve Banks have continued up to the present time to collect monthly sales and stocks by departments on the long form used for some years past. For the reasons stated in my letter of December 5, we are quite reluctant to continue these compilations as a Federal Reserve report until next January, as you suggest. We recognize, however, that there is something to be said for a brief transition period to permit the trade either to make its own arrangements for continuing the report or to permit determination of the feasibility of a new national departmental report of the type referred to.

Under the circumstances, we believe that the best thing to do is to make an immediate determination as to whether the new shortened national departmental report is a practical statistical possibility. Because the active participation of the major department store chains--J. C. Penney Company, Montgomery Ward & Co., and Sears Roebuck & Co.--would be essential to the success of such a report, we plan to discuss initially with those firms the question of their ability and willingness to supply data in the manner that would be necessary. At the same time, we would discuss the question of their increased participation in furnishing data needed for the weekly and monthly reports of total department store sales, as a part of the necessary maintenance and improvement in those series. A copy of a letter that I am sending today to Mr. William N. Batten, President of J. C. Penney Company, is enclosed, and similar approaches to Wards and Sears are planned for the near future.

You will note that my letter to Mr. Batten refers to a representative of NRMA accompanying the Federal Reserve representative, and it is my understanding that Mr. Silbert has expressed a willingness to do this. Perhaps you will wish to write to Mr. Batten (and subsequently to the other firms) if you wish to designate Mr. Silbert as your representative for this purpose.

When there has been an indication of the ability and willingness of these three firms to supply data that would be needed for the new national departmental report, and provided their response is favorable, we would proceed to approach other necessary elements of the department store trade as defined in the Standard Industrial Classification regarding their participation. It is realized that this may take several weeks, but we are anxious to arrive at a definite conclusion as to the feasibility of the proposed new report as rapidly as possible and, of course, we desire to conclude the Federal Reserve's participation in the present long departmental report promptly and in no event later than next January.

To avoid any possibility of a misunderstanding regarding the Federal Reserve's position on department store reports, let me say that our willingness to undertake the proposed new national departmental report must be regarded as a step in a transition program of improving retail data generally. Just how this may develop--whether through merchandise line series or through other improvements in the data now compiled by the Census Bureau--can not be determined at this time. It is clear to us, however, that whatever is needed in the way of a Federal Government program for retail trade statistics should be carried out under the general responsibility of a single agency and, of course, the Bureau of the Census is the agency having the responsibility for such work. Because of our long and favorable association with department stores across the country, we do not want our withdrawal from this activity to cause inconvenience that is avoidable, and we are certainly interested in the development of a program that will be constructive not only from the standpoint of general economic analysis but also from the standpoint of the trade with which we have had such pleasant and worthwhile relations.

Let me assure you that the Federal Reserve appreciates the constructive efforts of the representatives of the National Retail Merchants Association in helping to develop a program satisfactory to all concerned, and we shall continue to work with them toward the end of improving retail trade statistics and ultimately blending them into the Bureau of the Census program.

Sincerely yours,

Wm McC. Martin Jr

Wm. McC. Martin, Jr.

Enclosure

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

April 19, 1963.

Mr. William N. Batten,
President,
J. C. Penney Company,
330 West 34th Street,
New York, New York.

Dear Mr. Batten:

As I am sure you are aware, the department store reports of the Federal Reserve have been under study during the past three years by a joint committee known as the Committee of Five, composed of representatives from the Federal Reserve, the National Retail Merchants Association, and the Bureau of the Budget. This joint study arose largely because, after having collected department store data for many years, the Federal Reserve and other Government agencies concerned felt that responsibility for such reports should be transferred to the Bureau of the Census. This position was taken in part because of the recognized need for extensive revisions in the preparation of department store data in order to make them statistically reliable as indicators of consumer takings, and in part because the primary responsibility for Federal Government collection of retail trade data lies with the Bureau of the Census rather than with the Federal Reserve, whose responsibilities relate mainly to banking and financial matters.

Several Federal Reserve department store reports that were found by the Committee to be of little use either to economic analysts or to the trade were discontinued two years ago. The Committee's studies also confirmed the need for improvement in the quality of the data still being collected. Of the current reports, probably the most seriously deficient is that covering monthly sales by departments.

Last December, the Federal Reserve informed the President of the National Retail Merchants Association, Mr. Harold H. Bennett, of its reasons for concluding that the present monthly report of sales broken down for approximately 100 departments would be discontinued with the completion of comparisons for the fiscal year ending January 1963. Briefly, the reasons for this conclusion were: (1) the statistical inadequacies of the departmental report were such that it could not be considered to be a reliable indicator of changes in sales of the individual departments listed for the department store universe; (2) the Federal Reserve has no need that justifies its collecting departmental data in such detail even if the comparisons were statistically reliable. In his response, Mr. Bennett requested that discontinuance of this report be deferred until January 1964, rather than January 1963, in order to give the trade and other users of the statistics opportunity to evaluate their needs and in the hope that a national report of sales by departments might then have been established.

The new national departmental report to which Mr. Bennett referred would be a substantially shortened report of sales by departments. The Federal Reserve had indicated to Mr. Bennett in December that it was prepared to undertake the establishment of such a report covering about 25 departments, provided there was an indication that a representative sample of the trade would furnish the data in the form needed.

My purpose in writing to you is to ask that you see a Federal Reserve representative, Mr. Philip E. Coldwell, First Vice President of the Federal Reserve Bank of Dallas, who has served as a member of the Committee of Five and who would like to discuss with you and whomever you may designate of your firm the question whether J. C. Penney Company would be able and willing to provide monthly sales data in a manner that would permit inclusion of your firm in the proposed national departmental report. He would also wish to discuss the problem of improving data for the weekly and monthly reports of total department store sales. I shall not attempt to describe in detail the data that would be needed but would like to have Mr. Coldwell call upon you some time early in May, preferably between May 7 and 10, for the purpose of letting you know more about the problem and of discussing the possibility of your firm's participation.

I understand that a representative of the National Retail Merchants Association may accompany Mr. Coldwell at the time of his visit and that perhaps a representative of the Bureau of the Census may also be present. I shall appreciate your letting me know whether it would be convenient for you to receive a call from Mr. Coldwell and the others on one of the days indicated.

Sincerely yours,

Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.