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Minutes for May 14, 1963

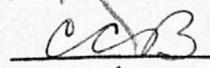
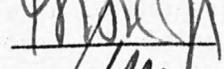
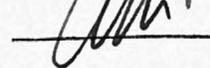
To: Members of the Board

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	
Gov. Mills	
Gov. Robertson	
Gov. Balderston	
Gov. Shepardson	
Gov. King	
Gov. Mitchell	

Minutes of the Board of Governors of the Federal Reserve System
on Tuesday, May 14, 1963. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Mills
Mr. Shepardson
Mr. King

Mr. Sherman, Secretary
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. O'Connell, Assistant General Counsel
Mr. Hooff, Assistant General Counsel
Mr. Smith, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Spencer, General Assistant, Office of the Secretary
Mr. Bakke, Senior Attorney, Legal Division

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on May 13, 1963, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

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

Item No.

Letter to the Federal Reserve Bank of Chicago regarding the procedure to be followed by Reserve Banks in handling requests from State member banks to make changes in the general character of their business or in the scope of corporate powers exercised at the time of admission to membership in the Federal Reserve System. (It was understood that a similar letter would be sent to the Presidents of all Federal Reserve Banks.)

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Item No.

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Letter to The Honorable Wright Patman, Chairman of the Committee on Banking and Currency of the House of Representatives, transmitting reports of examination of the Federal Reserve Banks of New York, Richmond, Chicago, and San Francisco made during the years 1960, 1961, and 1962.

In connection with Item No. 2, a letter transmitting to Chairman Patman reports of examination of four Reserve Banks, it was understood that requests that might be made by him for examination reports of the other eight Federal Reserve Banks would be brought to the Board for consideration.

Mr. Smith withdrew from the meeting at this point.

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

There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of State Bank of Madison, Incorporated, Madison, Virginia, into National Bank and Trust Company at Charlottesville, Charlottesville, Virginia.

In discussion, Governor Balderston suggested a change in the wording of the conclusion to eliminate the connotation that an increase in competition resulting from the proposed merger would be harmful. It was his view that, in this instance as was true in many cases, increased competition would be desirable.

Agreement having been expressed with the suggested change, the report was then approved unanimously for transmittal to the Comptroller in a form containing the following conclusion:

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There is little competition between National Bank and Trust Company at Charlottesville and State Bank of Madison, Incorporated, as their nearest offices are 27 miles apart with intervening banking facilities. Consummation of this proposal would probably not have adverse effects on smaller banks operating in the area and might increase competition for the area's dominant bank.

Report on competitive factors (Spokane-Colton, Washington). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposal of Old National Bank of Washington, Spokane, Spokane, Washington, to acquire the assets and assume liabilities to pay deposits made in Security State Bank, Colton, Washington.

In commenting on the report, Mr. Leavitt stated that a revised conclusion had been prepared; he then read the amended conclusion. Following discussion, it was indicated that the proposed change, further amended to reflect a suggestion made during the course of the discussion, was satisfactory to the Board. The report was then approved unanimously for transmittal to the Comptroller, the conclusion reading as follows:

Due to the distance of intervening banking facilities between the offices of Old National Bank of Washington, Spokane, and Security State Bank, there appears to be very little competition existing between the two banks. It is believed that the proposed acquisition will not have adverse competitive effects on other banks operating in the service area of the resulting institution.

Justice Department request (Items 3 and 4). There had been distributed a memorandum from the Legal Division dated May 10, 1963, regarding a request by the Department of Justice for certain information relating to Valley National Bank of Arizona, Arizona Bancorporation, and The Arizona Bank. The memorandum stated that the Department of Justice had commenced

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a civil antitrust action against the three organizations. In connection with this proceeding, the Justice Department served subpoenas on certain officers of Arizona Bancorporation, Valley National Bank of Arizona, and The Arizona Bank. The defendants moved to quash the subpoenas, citing, among other reasons, the fact that many of the documents called for by the Justice Department were already in the possession of Government instrumentalities, including the Federal Reserve Board and one or more of the Federal Reserve Banks. At the hearing on the motion to quash, a stipulation was entered into whereby the Department of Justice agreed to try to obtain such materials from the appropriate Government agencies, reserving the right to renew its demand upon the defendants in the event any or all of the materials could not be secured.

In a letter to Chairman Martin dated April 23, 1963, the Assistant Attorney General in charge of the Antitrust Division requested the cooperation of the Board in making certain documents available to the Justice Department. The Legal Division's memorandum described the nature of the documents requested, stating that a review of the Board's files indicated that the Board did not have in its possession any of the requested material. However, it was pointed out that, in addition to data obtained in connection with the 1955 Survey of Commercial and Industrial Loans and the 1957 Survey of Business Loans with respect to which the Federal Reserve Banks acted as collecting agents, sending only coded punched cards to the Board, it was possible that the Federal Reserve Bank of San Francisco might have accumulated during the course of its 1956 investigation of banking in Arizona, certain

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of the materials about which the Justice Department was inquiring. Therefore, it was suggested that the Federal Reserve Bank of San Francisco be requested to ascertain from its files whether it might still have the original questionnaires and other documents relating to Valley National Bank's response to the 1955 and 1957 surveys, and further, whether there was contained in the Reserve Bank's files information developed in the course of the 1956 investigation of banking in Arizona that would conform to the description of the material sought by the Justice Department.

The Legal Division's memorandum indicated that, depending upon the nature of the information that could be developed from the records of the Reserve Bank, consideration might have to be given to the effect of a provision in the criminal code (18 U.S.C. 1905) that prohibits disclosure of certain confidential business information "in a manner not authorized by law." Since there appeared to be no statutory authority pursuant to which the Board might disclose such information if it were in the files of the Reserve Bank, the Board would then have three alternative courses of action:

- (1) To turn the information over to the Justice Department as requested, relying on that Department not to institute criminal proceedings for a disclosure which the Department itself solicited;
- (2) To withhold the information and request an opinion of the Attorney General as to whether the disclosure would be authorized by law; or
- (3) To withhold the information and let the Department subpoena the material if it was deemed essential to the case.

It was the conclusion of the Legal Division that the preferable procedure would be to withhold the information and let the Department of Justice

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subpoena the material if it were deemed essential to the case. However, if the information requested by the Justice Department was not contained in the records of the Reserve Bank, or if none of the information fell within the purview of the criminal code, then the question of alternative procedures would be removed.

At the Board's request, Mr. Bakke commented in supplementation of the information contained in the memorandum of May 10, during the course of his remarks observing that at this point the question seemed to be one of procedure. On the assumption that the Board would wish to cooperate with the Department of Justice, there had been distributed a draft letter to the Federal Reserve Bank of San Francisco requesting it to ascertain whether information of the kind sought by the Justice Department could be developed from its records, and a proposed letter to the Justice Department that would acknowledge receipt of its request and indicate that the Department would be advised if the records of the San Francisco Bank revealed any pertinent information.

Following discussion, the letters to the Federal Reserve Bank of San Francisco and the Department of Justice were approved unanimously in the form attached as Items 3 and 4.

The meeting then adjourned.

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

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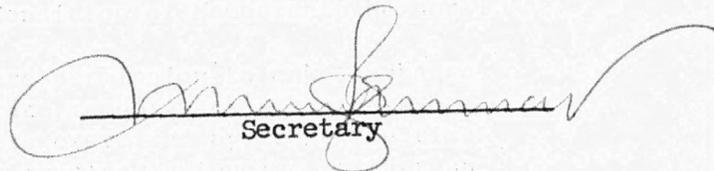
Appointments

Kathleen Alexander as Clerk-Stenographer, Division of Personnel Administration, with basic annual salary at the rate of \$4,110, effective the date of entrance upon duty.

Sarah Jean Smith as Clerk-Stenographer, Division of Personnel Administration, with basic annual salary at the rate of \$4,110, effective the date of entrance upon duty.

Transfer

Roberta M. O'Rourke, from the position of Secretary in the Division of International Finance to the position of Secretary in the Division of Bank Operations, with an increase in basic annual salary from \$5,045 to \$5,375, effective the date of assuming her new duties.


Secretary

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

Item No. 1569
5/14/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 29, 1963.

Mr. C. J. Scanlon, President,
Federal Reserve Bank of Chicago,
Chicago 90, Illinois.

Dear Mr. Scanlon:

Vice President Ross' letter of October 19, 1962, raised questions regarding the policy of the Board in granting permission to member State banks to act in various agency capacities and requested clarification of existing policy in that connection. The Board has reviewed these policy questions and, effective immediately, has adopted the procedure set out below, to be followed in cases in which a state member bank submits a request under Standard Condition of Membership Number 1.

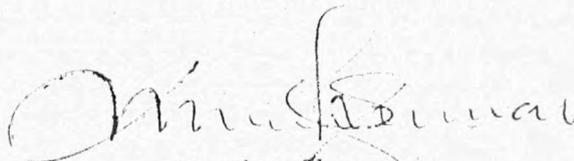
In all cases that require Board permission to make a change in the general character of the State member bank's business or in the scope of the corporate powers exercised by it at the time of admission to membership, and which clearly involve neither undue risk nor unusual circumstances or the exercise of unusual powers, the Reserve Bank shall make a factual determination to that effect and advise the State member bank that the application has been approved on behalf of the Board of Governors.

It is believed that this procedure will permit more expeditious handling of requests without conflicting with the Board's responsibilities in these matters. Under this procedure, a State member bank request under Condition of Membership Number 1 for permission to make a change in the general character of its business or in the scope of the corporate powers exercised by it will be reviewed and analyzed by the Reserve Bank as at present. If the Reserve Bank is satisfied that a factual determination as described above is warranted, it will advise the State member bank that the application has been approved on behalf of the Board (without referring to the factual determination) and will forward to the Board a copy of the letter to the bank, as well as a memorandum setting forth the analysis and basis for the determination. If the Reserve Bank is inclined to believe that the application should be denied or that the application involves any doubts that might prevent such a clear factual determination, it will submit the application together with its recommendation and memorandum to the Board. Cases will thus be submitted to the Board in all instances where the State member bank would be exposed to more than normal risk or where there are unusual circumstances or powers.

With more specific reference to the questions raised in Mr. Ross' letter of October 19, 1962, the Board has taken this occasion to review its policy with respect to applications for permission to act in various agency capacities. The acceptance of certain types of agency accounts, requiring management responsibilities, would clearly represent a change in the general character of a bank's business or in the scope of its corporate powers that would require express Federal Reserve permission. However, other types of agency functions may be so limited in duties and responsibilities, or so nearly like or a part of commercial banking operations, that their exercise should not be considered as requiring express permission. This would appear particularly true when a bank acts largely in a nondiscretionary capacity, such as paying agent on a bond issue, as depository, as escrow agent with no management responsibility, or as safekeeping agent.

The Board believes that the undertaking of fiduciary duties does require express permission. Authority of a State member bank to act in a nondiscretionary agency capacity might be included in a State statute setting forth fiduciary functions, but this would not require Federal Reserve permission unless the bank exercises such authority as part of a larger operation of a fiduciary nature. For example, permission would appear necessary for a State member bank to act as "trustee and paying agent" for a bond issue, but not merely as "paying agent". It is hoped that this expression of the Board's views will be helpful in deciding whether certain agency functions require express permission under the condition of membership.

Very truly yours,



Merritt Sherman,
Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

1571
Item No. 2
5/14/63

OFFICE OF THE CHAIRMAN

May 14, 1963.

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

Dear Mr. Chairman:

Pursuant to the request in your letter of May 10, 1963, reports of examination of the Federal Reserve Banks of New York, Richmond, Chicago, and San Francisco made during the years 1960, 1961, and 1962 are being transmitted herewith.

For reasons stated on past occasions when such reports have been supplied to your Committee, the reports of examination are being forwarded with the understanding that they will be made available in confidence only to members of Congress and their staffs.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosures.



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

Item No. 1572
5/14/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 14, 1963.

AIR MAIL

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

Dear Mr. Swan:

As you know, the United States Department of Justice has commenced an antitrust action against The Valley National Bank of Arizona, Arizona Bancorporation, and The Arizona Bank.

In connection with this proceeding, the Department served subpoenas on Mr. L. A. Wood, Vice President and General Manager of Arizona Bancorporation, Mr. J. E. Patrick, President of Valley National Bank of Arizona, and Mr. W. R. Montgomery, Chairman of the Board of The Arizona Bank. Defendants moved to quash the subpoenas citing, among other reasons, the fact that many of the materials called for are already in the possession of other Government instrumentalities, including the Federal Reserve Board and one or more Federal Reserve Banks. At the hearing on the motion to quash, a stipulation was entered into whereby the Department agreed to try to obtain such materials from the appropriate Government agencies, reserving the right to renew the demand upon defendants in the event any or all of the materials could not be secured.

Under date of April 23, 1963, the Assistant Attorney General in charge of the Antitrust Division directed a letter to Chairman Martin enclosing copies of the three subpoenas mentioned above, and, with respect to the paragraphs thereof which call for materials of which copies may be in the possession of the Board or any of the Federal Reserve Banks, a request is made of the Board for cooperation in making the designated documents available to the Department.

Enclosed for your information are copies of the letter from the Assistant Attorney General and the subpoenas to which he makes reference.

Mr. Eliot J. Swan

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A search of the Board's files reveals that the only material called for in the subpoenas in the Board's possession is the statistical data, stored on computer tape, relating to Valley National Bank's response to the 1955 and 1957 surveys of business loans.

With the thought that your Bank might still have the original questionnaires and other documents relating to Valley National Bank's response to the 1955 and 1957 surveys, and further that you may have in your files information developed in the course of your 1956 investigation of banking in Arizona which would conform to the description of certain of the materials sought by the Department of Justice, it would be appreciated if you would ascertain whether the Bank's files contain such documents or materials and advise the Board as to your findings. On the basis of such advice the Board can then determine the nature and scope of its response to the Department of Justice.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosures



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

1574
Item No. 4
5/14/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 14, 1963.

The Honorable Lee Loevinger,
Assistant Attorney General,
Antitrust Division,
Department of Justice,
Washington 25, D. C.

Re: United States v. The Valley National
Bank of Arizona, et. al. (D. Ariz. Civ.
No. 4550-Phx)

Dear Judge Loevinger:

This will acknowledge receipt of your letter of April 23, 1963, requesting certain materials that may be in the possession of the Board of Governors or of one of the Federal Reserve Banks, pertaining to the above-captioned cause.

A review of the Board's files has failed to reveal any of the specified materials. That such materials are not found in the Board's files is explained by the following pertinent facts:

(a) Arizona Bancorporation is not and has not been (except for a brief period because of inadvertence on Bancorporation's part) a bank holding company subject to the Board's jurisdiction, nor has it sought or held a voting permit as a holding company affiliate;

(b) Primary jurisdiction over The Valley National Bank of Arizona rests with the Comptroller of the Currency;

(c) The Arizona Bank (formerly Bank of Douglas) is a State nonmember insured bank (as were the Bank of Flagstaff, the First State Bank of Arizona, the Buckeye Valley Bank, and the Farmers and Stockmen's Bank of Phoenix prior to their acquisition by or merger into The Valley National Bank of Arizona or the Bank of Douglas) subject to the Federal jurisdiction of the Federal Deposit Insurance Corporation.

The Honorable Lee Loevinger

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In addition to data secured in connection with the 1955 Survey of Commercial and Industrial Loans and the 1957 Survey of Business Loans, with respect to which the Federal Reserve Banks acted as the collecting agents sending only coded punch cards to the Board, it is possible that the Federal Reserve Bank of San Francisco might have accumulated certain of the materials about which you inquired during the course of its 1956 investigation of banking in Arizona. The Board is requesting the Bank to advise whether any of the materials in question are in its possession, and you will be informed of the results of this inquiry.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.