

The attached minutes of the meeting of the Board of Governors of the Federal Reserve System on May 22, 1963, which you have previously initialed, have been amended at the request of Governor Mitchell to revise the first incomplete paragraph on page 4.

If you approve these minutes as amended, please initial below.

Governor Mitchell

UM

Governor Mills

[Signature]

Governor Balderston

CCB

Governor Shepardson

[Signature]

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9/61

Minutes for May 22, 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

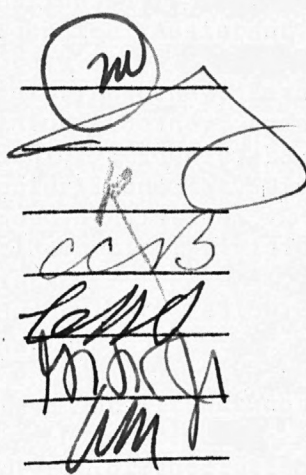
Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. King

Gov. Mitchell

A series of handwritten initials and signatures corresponding to the list of board members. From top to bottom: a circled 'm' for Martin; a signature for Mills; a signature for Robertson; 'CCB' for Balderston; a signature for Shepardson; a signature for King; and a signature for Mitchell.

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, May 22, 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  
 Mr. Mitchell

Mr. Sherman, Secretary  
 Mr. Fauver, Assistant to the Board  
 Mr. Hackley, General Counsel  
 Mr. Farrell, Director, Division of Bank Operations  
 Mr. Solomon, Director, Division of Examinations  
 Mr. O'Connell, Assistant General Counsel  
 Mr. Shay, Assistant General Counsel  
 Mr. Hooff, Assistant General Counsel  
 Mr. Holland, Adviser, Division of Research and Statistics  
 Mr. Daniels, Assistant Director, Division of Bank Operations  
 Mr. Leavitt, Assistant Director, Division of Examinations  
 Mr. Thompson, Assistant Director, Division of Examinations  
 Mrs. Semia, Technical Assistant, Office of the Secretary  
 Mr. Bakke, Senior Attorney, Legal Division  
 Miss Hart, Senior Attorney, Legal Division  
 Mr. Potter, Senior Attorney, Legal Division  
 Mr. Smith, Senior Economist, Division of Research and Statistics  
 Mr. Flechsig, Economist, Division of Research and Statistics  
 Mr. Hunter, Supervisory Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Atlanta on May 20, 1963, of the rates on discounts and

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advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

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

	<u>Item No.</u>
Letter to Effingham State Bank, Effingham, Illinois, interposing no objection to the declaration of dividends in 1961 and 1962 and approving the declaration of a dividend in June 1963.	1
Letter to Bank of Cassaway, Cassaway, West Virginia, approving an investment in bank premises.	2
Letter to Bank of Christiansburg, Christiansburg, Virginia, approving an investment in bank premises.	3
Letter to Bloomfield State Bank, Bloomfield, Indiana, approving an investment in bank premises.	4
Letter to The Rio Grande County Bank, Del Norte, Colorado, interposing no objection to the declaration of dividends paid June 30, 1962, and December 31, 1962.	5
Letter to Fall River Trust Company, Fall River, Massachusetts, approving the establishment of a branch in Swansea.	6
Letter to Dauphin Deposit Trust Company, Harrisburg, Pennsylvania, approving the establishment of a branch at Second and Maclay Streets, branch operations now conducted at 543-545 Maclay Street to be discontinued simultaneously with the establishment of the new branch.	7
Letter to Pascagoula-Moss Point Bank, Moss Point, Mississippi, approving the establishment of a branch in the eastern corporate limits of Pascagoula.	8

Mr. Hooff then withdrew from the meeting.



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New Orleans Branch building (Item No. 9). There had been circulated a memorandum dated May 16, 1963, from the Division of Bank Operations in connection with a request from the Federal Reserve Bank of Atlanta for authority to advertise for bids for the construction of a new building for the New Orleans Branch. The cost estimate for building and site work was \$4,850,407. The memorandum reviewed steps that had led to the development of final plans and specifications for the building and discussed various features of the plans. More detailed information about the proposed construction was contained in a letter of April 1, 1963, attached to the memorandum, from the Federal Reserve Bank of Atlanta. Also attached was a draft of telegram that would grant the requested authority to advertise for bids.

During discussion Governor Mitchell raised a question as to the net cost per square foot of usable space, since the cost per square foot of gross floor space would apparently be somewhat higher than for other branch buildings constructed in the past few years. Staff responses indicated that when allowance was made for recent increases in building costs, the cost per square foot for the proposed New Orleans Branch building did not appear out of line with other recent construction. It was also pointed out that in considering the cost, account had to be taken of maintenance expense over a period of years as well as the initial construction. As examples, although marble wainscoting was more expensive than other wall finishes, its upkeep involved less expense, and although automatic elevators cost substantially more than nonautomatic ones, they

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obviated the necessity to employ operators and the extra cost was thus recouped in a few years. At the conclusion of the discussion Governor Mitchell indicated that in future cases he thought it would be desirable to have two cost computations for Board consideration, (1) construction costs in terms of usable space and (2) estimated rental rates per square foot that would have to be charged for such space, taking into account maintenance requirements implicit in the construction plans and costs.

The telegram authorizing the Atlanta Reserve Bank to advertise for bids was approved unanimously. A copy is attached as Item No. 9.

Mr. Daniels then withdrew from the meeting.

Application of Chemical Bank New York Trust Company. An application had been received from Chemical Bank New York Trust Company, New York, New York, for consent to acquire the assets of and assume liability to pay deposits made in Bank of Rockville Centre Trust Company, Rockville Centre, New York. At a meeting of the Board on February 4, 1963, there was a preliminary discussion of the application, at which time the Board directed its staff to prepare plans, in cooperation with the Federal Reserve Bank of New York, for a survey of the factors that would have a bearing on the merger application, including economic as well as other data relating to the service area involved. However, because of certain later developments, the Board on April 12, 1963, agreed to table the survey project.

There had been distributed a preliminary memorandum dated May 13, 1963, from the Division of Examinations, containing information derived from the application, reports of examination of the two banks, and reports

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on competitive factors. The purpose of this memorandum, which was distributed prior to the availability of the findings and conclusions of the Federal Reserve Bank of New York, was to assist the Board in its consideration of the question whether or not an oral presentation should be held. On May 16, 1963, the Board decided that question in the negative.

There had also been distributed two memoranda dated May 20, 1963, one from the Banking Markets Unit analyzing the competitive effects of the proposed merger, and one from the Division of Examinations supplementing its May 13 memorandum, a recommendation having been received from the Federal Reserve Bank of New York that the application be approved.

The views of the Division of Examinations, as stated in the memorandum, were that the case for approval or denial of the application was extremely close, but on balance they recommended approval. Of the factors required to be considered under the Bank Merger Act, the banking factors were virtually neutral, supporting neither denial nor approval. There was no reason to believe that each of the banks could not continue as separate units to operate satisfactorily and profitably. It did not appear that the effect on competition would be unfavorable; on the other hand, broadened banking services that Chemical Bank could make available in the area were already available there. Any benefits flowing from the merger would be to customers of Bank of Rockville Centre only. Since the statutory criteria indicated no particular reason supporting either approval or denial, it seemed that the case rested on a determination of what was the best type of banking structure for New York City and the adjoining Counties of Westchester and Nassau into which New York City banks could

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now expand. The recommendation of the Division of Examinations for approval of the application was based on the following reasons.

(1) The effect on competition would not be unfavorable. Competition between the two banks was not keen, and permitting Chemical Bank to expand into Rockville Centre should provide increased competition for the two largest County banks (Franklin National Bank and Meadow Brook National Bank ), branches of which now held 90 per cent of the deposits of the eight-town area served by Bank of Rockville Centre. It would not seem that the proposal would have significantly adverse competitive effects on smaller banks in the area, such as The Community Bank, Lynbrook, New York, and Oceanside National Bank, Oceanside, New York. The latter, the one most likely to be affected, could probably remain independent if it wished, and a decision to merge might very likely be based on the attractiveness of the premium offered rather than the increased competition to which the bank might be exposed should the Chemical Bank-Rockville Centre merger be consummated.

(2) Approving the merger would enable Chemical, a large city bank, to expand its service area without increasing the number of offices in Nassau County. New York's Omnibus Banking Act was adopted to permit New York City banks to follow their customers to the suburbs. Whether the State legislature wished this to take place through establishment of de novo branches, by mergers, or both was not known, though it was known that the State Superintendent of Banks favored the merger route. It was understood that he felt this less likely to result in an over-banked condition and that the effect on smaller banks would not be so significant since the



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number of offices should not increase significantly. In the present case the number of offices would increase because First National City Bank, New York, New York, had made known its desire to establish a branch in Rockville Centre if this merger was approved. Consummation of the merger would eliminate in Rockville Centre the "home office protection" provided by New York law.

(3) The proposal would provide expanded banking services for the customers of Bank of Rockville Centre. The bank had been a fairly conservatively operated institution, and it was possible that Chemical Bank would adopt policies that would contribute more to the growth of the Rockville Centre area. The Federal Reserve Bank of New York believed that Bank of Rockville Centre had not served the needs of businessmen as well as it should have.

At the Board's request Mr. Leavitt commented on the application, basing his remarks primarily on the memoranda that had been distributed. The banking factors being virtually neutral, the Division's recommendation had been based principally on the factor of the convenience and needs of the Rockville Centre community. It was felt that the residents of that community would benefit by having available the full-range services of another large bank in addition to Franklin National and Meadow Brook National. The Division considered that this circumstance lent support for approval of the application, despite the fact that Chemical Bank, like all large New York City banks, solicited business from the entire metropolitan area. It was doubted that the fact that Chemical Bank held a sizable volume of deposits from the Rockville Centre area constituted

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true competition. It seemed probable that the determining question to a resident of Rockville Centre, a "commuter community," was whether he wished to bank where he lived or where he worked. Having decided to bank where he worked, the competition for his account would be among the large New York City banks with offices near his place of business. In Mr. Leavitt's view, commuter competition was not true competition but a matter of choice and convenience on the part of the individual. Competition between Chemical Bank and Bank of Rockville Centre was not strong, although there was potential for more because Chemical Bank had recently opened a branch in West Hempstead, about three miles from Rockville Centre. Notwithstanding that fact, the Division believed that approval of the merger would not have a significant effect on competition; there would be no effect in New York City, and little immediate effect in Nassau County and the eight-town service area of Bank of Rockville Centre. However, there might be a long-range effect in that, if this merger was approved, it could trigger other mergers in Nassau County. Undoubtedly Chemical Bank would solicit business more aggressively than had Bank of Rockville Centre. Another long-range consideration pointing to increased competition was the likelihood of injection of additional branches in Nassau County by large New York City banks, as foreshadowed by First National City Bank's application already filed. Franklin National and Meadow Brook National would be affected by the merger, but the Division of Examinations believed that, because of the large size of those two banks, they would not be harmed. Some small banks in the area might be adversely affected, principally Oceanside

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National and The Community Bank, Lynbrook. If those banks wished to remain independent and provide limited services in their immediate areas, they could probably survive. However, they also might regard their future growth so difficult to accomplish that they would choose to merge. The Comptroller of the Currency and the Federal Deposit Insurance Corporation had concluded that the effect of the merger on competition would not be unfavorable; the Department of Justice concluded that it would be unfavorable; the Board's Banking Markets Unit found that the merger would intensify competition, which would redound to the benefit of the community; and the Division of Examinations felt that the net effect on competition would not be unfavorable. The Division felt that the present application could be distinguished from the previous application of Chemical Bank to merge with Long Island Trust Company, Garden City, New York (denied by order of the Board dated April 30, 1962). Long Island Trust had 14 offices, whereas the Rockville Centre bank had only 3. The Division considered the number of offices more significant in an area such as Nassau County than the volume of deposits involved, and therefore felt that approval of the current proposal would not be inconsistent with the denial of Chemical Bank's Long Island Trust application or with the application of The Chase Manhattan Bank, New York, New York, to merge with Hempstead Bank, Hempstead, New York (also denied by order of the Board dated April 30, 1962). Also to be considered was the fact that the New York State Banking Department, which was quite concerned about over-banking in the Nassau County area, might feel, if this application was denied, that it could no longer deny applications of large New York City banks to establish de novo branches in the area.

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Governor Mitchell referred to statements in the memorandum from the Federal Reserve Bank of New York that, although Bank of Rockville Centre's gross operating earnings in 1962 increased \$86,000 over 1961, its operating expenses increased \$189,000, resulting almost entirely from an increase of \$182,000 in interest cost on time deposits; thus net current operating earnings decreased \$103,000 from \$442,000 in 1961 to \$339,000 in 1962. He asked if there was any reason why similarly curtailed earnings would not be projected to future years, if the Bank continued as an independent institution, and noted also that the New York bank's memorandum mentioned that the Rockville Centre bank's president had stated that reduced earnings for 1962 were one of the reasons for wishing to accept Chemical Bank's merger offer.

Mr. Leavitt responded that, although it was true that the Rockville Centre bank's earnings were down and its operating expenses up, the Division of Examinations doubted that the bank would be unable to operate profitably. Its net earnings might be somewhat below the average of all banks in the area, as they were in 1962, but there was a reasonable probability that it could operate fairly near the average.

Governor Mitchell, remarking that a reduction in earnings equal to almost one-fourth of those for the preceding year was substantial and should have an impact on the bank's capital value, asked if the staff knew any facts that would destroy the credibility of that inference. Mr. Leavitt responded that no such facts were known.



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The members of the Board then stated their views, beginning with Governor Mills, who said that he would vote to approve. The proposal expressed the wishes of the two parties to the merger, which should not be upset in the absence of controlling arguments for denial, which he had not discovered. The application was one that should be viewed in broad perspective and not in specifics and minutia. The broad perspective was, of course, the situation of Nassau County as an integral part of the greater New York City metropolitan area. In that perspective, it was reasonable not only for Nassau County banks to expand into New York City, as some of them, particularly Franklin National, had done, but also for New York City banks to have opportunities to expand into Nassau County either by the de novo branch route or by mergers that were consistent with the public interest. Denial of the application would in effect be another step in reserving Nassau County to Meadow Brook National and Franklin National. Both of those banks were able to be exposed to additional competition, and it could be to the general public advantage that they should be so exposed. In previous instances, likewise, the Board had recognized that there are banks in some communities that cater only to local trade and are self-sufficient in that respect, and it had seen fit to permit large city banks to expand into such areas. Governor Mills believed that the same reasoning could be applied to the situation presented by the application under consideration where the two small banks servicing localized trade areas should not necessarily be adversely affected competition-wise.

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Governor Robertson stated that he would disapprove; it seemed to him that all considerations were against the application. It had been admitted that the banking factors did not support approval, with which he agreed. He regarded the arguments as to convenience and needs of the community as not impressive. There were already large banks in the area that could provide any needed services, and Chemical Bank had a new branch less than three miles from Rockville Centre. Therefore, it did not seem to him that it could be argued that the people were deprived of the services of large bank competition. In his view, the merger would eliminate not only present competition but also potential competition to come from Chemical Bank's new branch. He considered the principle in this case difficult to distinguish from the principle established by the Board in the Chemical Bank-Long Island Trust case, even though more branches were involved in the latter. He believed that the trend toward concentration of banking power in large New York City banks would be furthered by approval of this application--a result that he thought would not be in the public interest. The Division of Examinations had admitted the possibility that this merger might bring about further mergers of small banks in Nassau County. Governor Robertson thought that the Board had been a little too prone to take the attitude that size by itself brought better services to the public, which he did not believe was necessarily true. In his view, small banks were frequently more responsive to the needs of the community than branches of large banks. The size of the premium involved in this case indicated to Governor Robertson a real

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desire on the part of the acquiring bank to obtain the Rockville Centre site. The premium amounted to \$1.6 million, which was nearly 5 times the Rockville Centre bank's average net current operating earnings for the past five years. On the basis of value of stock in terms of market value of Chemical Bank compared with book value of Rockville Centre bank's stock, the premium was \$3.7 million, which was 11.3 times the average net operating earnings for the past five years. He did not object to Chemical Bank's making such an offer, and he could understand why the owners of the Rockville Centre bank would not want to turn it down, but he thought that the Board must consider carefully whether or not it would permit a trend toward concentration of power in banks that could afford to pay premiums that could not be resisted. He agreed with the position taken by the Department of Justice in its competitive factor report.

Governor Shepardson observed that statements to the effect that the banking factors did not support approval of this application carried an adverse connotation. He wondered if that was correct. As he understood it, the banking factors were neutral, and not adverse. This did not, in his opinion, constitute a negative argument. Admittedly, there was not a widespread need, although Chemical Bank would provide an added source of the type of service that was already available in the area. It seemed to him however, that even though two small banks might be adversely affected, the rapid expansion of de novo branches since the Board's decision in the Long Island Trust case indicated a type of competition that was more adverse to the continued existence of the small, independent bank than

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was the present proposal. In the present case, allowing Chemical Bank to take over a small bank gave it an opportunity to provide competition for two large banks presently dominating the area. That seemed to Governor Shepardson to be definitely an improvement in the competitive situation. The amount of competition that might be eliminated between the two institutions involved was minimal in comparison with the advantage of adding competition for Franklin National and Meadow Brook National. On those grounds, he would approve.

Governor King stated that he would approve, principally for the reasons cited by Governor Shepardson. The size of the premium did not bother him; he thought it indicated that any small banks that elected to sell out in the future would not be hurt financially. He did not believe that anybody would be hurt by this merger, whereas he saw some inequities if the application was not approved. He viewed Nassau County as part of the New York metropolitan area, and was impressed by Mr. Leavitt's point that denial would undoubtedly put the State banking authorities under pressure to permit the establishment of more de novo branches. As Governor King viewed the application, there was neither a plus nor a minus on banking factors, a plus on convenience and needs of the community, and, he thought, a plus on competition. He thought that providing a competitor for Franklin National and Meadow Brook National far outweighed the elimination of the small amount of present competition, and even the elimination of potential competition from Chemical Bank's new branch. He could not assign potential competition much significance when little competition



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had developed up to the present time. The area was heavily populated, and the other banks in the vicinity had offered little objection to the proposal.

Governor Mitchell commented that, as he regarded the application, it presented a problem that the Board would have to face not only in New York State, but certainly in the Denver area and possibly in other localities, namely, how to handle mergers and de novo openings in an area where some integration was inevitable. The Board and the Comptroller of the Currency having expressed preference for de novo branches rather than mergers, the issue was being forced. Although Governor Mitchell could not foresee what kind of banking structure would evolve in Nassau County, he had long felt that New York City banks had a right to serve that area and should enter it by whatever means were available to them. Probably there would have to be a combination of de novo branching and mergers. The present proposal seemed to have some merit as a means of allowing a New York City bank to expand in Nassau County without an increase in the number of banking offices there. He did not agree with the view of the Division of Examinations that the Rockville Centre bank would be likely to continue to operate profitably. It seemed to him that a bank that lost almost 25 per cent of its earnings in a year, with no indication of being able to recoup, was noncompetitive and was falling by the wayside. He did not believe the Board had available sufficient information on the premium being offered to determine whether this merger proposal was an attempt to buy out competition or whether it was an attempt to expand in Nassau County

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through merger rather than through de novo branching. As a practical matter, it seemed appropriate for the Board to have regard for the State Banking Department's concern as to over-banking in Nassau County. Governor Mitchell stated that he would vote to approve the application, expressing the hope that the language of the Board's statement would face up to the problem of mergers versus de novo branches, and not be clouded by references to improved services, which he thought were already available.

Governor Balderston expressed the view that Franklin National and Meadow Brook National enjoyed a duopoly position that ought not be perpetuated. He had voted with reluctance to deny Chemical Bank's application to acquire Long Island Trust Company last year. That proposal, with Long Island Trust having 14 offices and \$140 million in deposits, had seemed to him to contemplate an entrance into Nassau County by a New York City bank on too large a scale to be in the public interest. In comparison, the Rockville Centre bank had only \$40 million in deposits and only 3 offices, and Governor Balderston considered the number of offices the real crux of the matter rather than the volume of deposits. He had concern for the desirability of providing a competitor large enough to do battle with Franklin National and Meadow Brook National, and for demolishing the home office protection rule in Rockville Centre. Also the Rockville Centre bank did not appear to have been too aggressive. The essential factor in this particular case, in Governor Balderston's view, involved an element that had also been present in the Long Island Trust proposal and had been mentioned by Governor Mills, namely, the question

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whether or not a mid-city bank should be allowed to develop retail banking in the suburbs where potential customers lived. There had been indications that a big city bank could not get along with large accounts only, but needed a mixture of retail business. New business of that type should be sought in the bedroom communities of a metropolitan area. His conclusion was that the long-range developments of the banking structure of the New York area indicated approval.

Chairman Martin said that he also would vote to approve, expressing the view that the economic growth and development of the New York area would be improved by the merger. The same end might be achieved in other ways, but those ways were not available at present.

The application of Chemical Bank New York Trust Company was thereupon approved, Governor Robertson dissenting. It was understood that the Legal Division would prepare for the Board's consideration drafts of an order and a statement reflecting this decision, and that a statement reflecting Governor Robertson's dissent would also be prepared.

Messrs. Holland and Shay then withdrew from the meeting.

Petitions for reconsideration (Items 10, 11, and 12). There had been distributed a memorandum dated May 17, 1963, from the Legal Division in connection with petitions for reconsideration of the Board's actions, by orders dated January 31, 1963, denying the applications of First Wisconsin Bankshares Corporation, Milwaukee, Wisconsin, to acquire the stock of Merchants & Savings Bank, Janesville, Wisconsin, and of American Bank

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and Trust Company, Racine, Wisconsin; and the application of The Marine Corporation, Milwaukee, Wisconsin, to acquire the stock of The Beloit State Bank, Beloit, Wisconsin.

The memorandum stated that, pursuant to section 9 of the Bank Holding Company Act, each of the petitioners had also filed in the United States Court of Appeals for the Seventh Circuit a petition for review of the Board's order. These petitions were filed in order to protect the petitioners' rights of appeal (60 days from the date of the Board's orders) pending the Board's determination of the petitions for reconsideration. With the prior knowledge of and no objection by the Department of Justice, the petitioners had asked the Court to extend to a date 30 days after final Board action on the petitions for reconsideration the time within which the petitioners must file their initial briefs on appeal. Attached to the memorandum were three supplemental memoranda in which the major averments of each petition were summarized and evaluated.

The covering memorandum stated the opinion of the Legal Division that each of the petitions should be denied. Section 262.2(f)(6) of the Board's Rules of Procedure provides in part that "the Board will not grant any request for reconsideration of its action, unless the request presents relevant facts that, for good cause shown, were not previously presented to the Board, or unless it otherwise appears to the Board that reconsideration would be appropriate." The analyses of the petitions indicated that none of them presented relevant facts that were not previously



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presented to the Board, nor, in the judgment of the Legal Division, did their contents otherwise make appropriate reconsideration of the Board's original determinations.

The bases urged by the respective petitioners in support of their requests, while differing in details that were necessarily peculiar to the respective areas and banks concerned, were similar in substance. In sum, the contentions were (1) that the Board's findings, and conclusions based thereon, were not supported by substantial evidence in the record, (2) that the Board had erroneously applied pertinent statutory provisions to the prejudice of the petitioners' positions, and (3) that the petitioners were without prior notice of the Board's change in views from prior decisions in respect to several matters upon which the decisions were based, and that due process of law required opportunity for further evidentiary presentation to meet those "changed views."

Upon analysis of the record and the Board's statements in the cases in the light of the petitioners' assertions, it was the opinion of the Legal Division that the assertions were without sufficient merit to warrant the action requested for the reasons that (1) substantial evidence was contained in the record and referred to in the Board's statements to support the orders of denial; (2) to the extent that interpretations of law were contained in the Board's statements, the same were reasonable and, in the Division's opinion, consistent with previous interpretations of the Board; and (3) while the guarantees of due process of law could be said to secure petitioners against lack of opportunity to present evidence on pertinent

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issues, petitioners were not secured against their own lack of reasonable foresight. The Board was not required to prepare or repair an applicant's case at any stage of the administrative process.

The Legal Division therefore concluded that the petitions offered no compelling reasons to support reconsideration of the Board's orders. The contentions set forth were properly addressed to an appellate court for resolution, rather than to the Board for reconsideration. If the Board concurred in the recommendations of the Legal Division, it was proposed that no further statement of reasons be given than were contained in draft orders, attached to the memorandum, reflecting the Legal Division's recommendation. It was believed that no statements by the Board were necessary in the Board's interests, and that issuance of only an order in each case would avoid the possibility that the petitioners, on appeal, might allege the existence of changes in, inconsistencies of, or direct conflicts between positions taken by the Board in two different statements in the same case. To the extent that that could be precluded, the Department of Justice, in its defense of the Board's original actions, would be better able to keep within bounds the genuine issues before the Court. At the same time, if necessary, the Department could argue some or all points that the Board might have set forth had statements been issued.

In response to the request of the Board for any supplementary comments the Legal Division might wish to make, Mr. O'Connell remarked that it was the function of the Court of Appeals to uphold or reverse the Board's decisions; it was not the responsibility of the Board to reopen a case

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because of an allegation. The Division believed that the Board's statement reflecting the three decisions were well supported by the record, and that the Board had not, as the petitioners alleged, changed its attitude, but rather had based its decisions on the particular circumstances of each case. After responding to questions as to the record on which court action would be based, he observed that it was not certain that the petitioners would go to court in all three cases if the Board denied the petitions, although it seemed probable that First Wisconsin Bankshares would follow up on one of its cases in the hope of establishing its point.

The three petitions for reconsideration were thereupon denied unanimously. Copies of the orders reflecting this decision are attached as Items 10, 11, and 12.

All members of the staff then withdrew except Messrs. Sherman, Fauver, Farrell, and Solomon, and Mrs. Semia.

Regulation K. Governor Mitchell stated that he hoped there would be distributed later today a memorandum that would point up three main questions that he would like to have the Board consider regarding possible changes in Regulation K, Corporations Doing Foreign Banking or Other Foreign Financing under the Federal Reserve Act, that had been suggested by Edge corporations and the Federal Reserve Banks as a result of the publication of the proposed revision of the regulation. He believed that most of the other suggestions that had been made could be readily accepted and incorporated in a revised draft of the regulation if the Board could

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reach a decision as to the questions relating to abolition of the distinction between banking and financing corporations, the issuance of debentures, and limited operations within the United States.

Governor Mills raised a question whether it might be preferable to defer preparation of another revised draft of the regulation until after discussions with representatives of interested institutions.

After discussion, it was understood that the matter would be placed on the agenda for tomorrow's meeting, at which time the Board would discuss further the questions raised by Governors Mitchell and Mills.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of New York (attached Item No. 13) approving the appointment of William V. Ferdinand as assistant examiner.

Letter to the Federal Reserve Bank of Richmond (attached Item No. 14) approving the appointment of Richard E. Alford as assistant examiner.

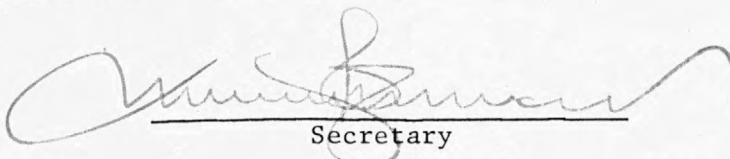
Letter to the Federal Reserve Bank of Richmond (attached Item No. 15) approving the designation of Shelton G. Phaup as special assistant examiner.

Letter to the Federal Reserve Bank of San Francisco (attached Item No. 16) approving the appointment of James H. Riding as assistant examiner.

Memoranda from appropriate individuals concerned recommending acceptance of the resignations of the following persons on the Board's staff, effective the dates indicated:

Darlene J. Butler, Research Assistant,  
Division of Research and Statistics, effective  
May 31, 1963.

Mary W. Cooley, Cafeteria Helper, Division  
of Administrative Services, effective at the close  
of business May 21, 1963.



Secretary





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

1700

Item No. 1  
5/22/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 22, 1963

Board of Directors,  
Effingham State Bank,  
Effingham, Illinois.

Gentlemen:

The Board of Governors has received from Mr. O. O. Wyrick, Vice President, Federal Reserve Bank of St. Louis, a copy of a letter dated April 19, 1963, from Mr. George L. Dehn, President, Effingham State Bank, requesting that the Board make no objection to the declaration of dividends totaling \$20,000 each in the years 1961 and 1962 in contravention of the provisions of paragraph 6, Section 9 of the Federal Reserve Act and Section 5199(b), United States Revised Statutes. These dividends were declared in the amounts of \$6,000 on June 9, 1961, and \$14,000 on December 8, 1961, \$6,000 on June 8, 1962, and \$14,000 on December 14, 1962. Mr. Dehn's letter also requests permission under the provisions of these statutes to declare a dividend of \$11,250 in June 1963.

The Board has given careful consideration to the facts and will make no objection to the declaration of the dividends declared in 1961 and 1962 and approves the declaration of a dividend of \$11,250 in June 1963. This letter does not authorize any other declaration of dividends for 1963 or later.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

1701

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

Item No. 2  
5/22/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



May 22, 1963

Board of Directors,  
Bank of Gassaway,  
Gassaway, West Virginia.

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 in an amount not exceeding \$143,000 by the Bank of Gassaway, Gassaway, West Virginia, for the purpose of a complete renovation of its present banking quarters.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.



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

1702

Item No. 3  
5/22/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 22, 1963

Board of Directors,  
Bank of Christiansburg,  
Christiansburg, Virginia.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment in bank premises of \$243,000 by the Bank of Christiansburg, Christiansburg, Virginia, for the purpose of constructing a new building. The amount approved represents \$225,000 for the new building, \$3,000 for demolition of present quarters and \$15,000 for temporary quarters to be used while the new building is being constructed. It is understood that the \$3,000 for demolition is to be charged to expense and that the temporary building is to be sold upon completion of the construction program.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.



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

1703

Item No. 4  
5/22/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 22, 1963

Board of Directors,  
Bloomfield State Bank,  
Bloomfield, Indiana.

Gentlemen:

The Board of Governors of the Federal Reserve System approves, under the provisions of Section 24A of the Federal Reserve Act, an additional investment of \$12,500 in bank premises by Bloomfield State Bank, Bloomfield, Indiana, for the purpose of purchasing and improving two lots to provide additional parking facilities for its customers.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.





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

1704  
Item No. 5  
5/22/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 22, 1963

Board of Directors,  
The Rio Grande County Bank,  
Del Norte, Colorado.

Gentlemen:

The Board of Governors of the Federal Reserve System has received a copy of a letter dated May 2, 1963, from Mr. John Reason, Vice President and Director, The Rio Grande County Bank, addressed to Mr. L. F. Mills, Vice President, Federal Reserve Bank of Kansas City, in which he requests that no objection be made to the declaration of dividends of \$2,500 paid June 30, 1962, and \$5,000 paid December 31, 1962. The declaration of these dividends was in contravention of the provisions of paragraph 6, Section 9 of the Federal Reserve Act and Section 5199(b), United States Revised Statutes, as you were previously informed by the Federal Reserve Bank.

Under the statutes, the Board's approval is required prior to the declaration of the dividends. Prior approval cannot be given in this case since the dividends already have been paid. However, the Board, after consideration of the facts, makes no objection to the declaration of these dividends, but suggests, if large losses from loans continue unchecked, that it would be well for you to give consideration to omission of future dividend payments until the capital structure has been substantially strengthened. This letter does not authorize any declaration of dividends in 1963 or later.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

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

Item No. 6  
5/22/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



May 22, 1963

Board of Directors,  
Fall River Trust Company,  
Fall River, Massachusetts.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Fall River Trust Company, Fall River, Massachusetts, of a branch at 435 Wilbur Avenue, Swansea, Massachusetts, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

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

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

Item No. 7  
5/22/63



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 22, 1963

Board of Directors,  
Dauphin Deposit Trust Company,  
Harrisburg, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by Dauphin Deposit Trust Company, Harrisburg, Pennsylvania, at Second and Maclay Streets, Harrisburg, Pennsylvania, provided that the branch operation now conducted at 543-545 Maclay Street will be discontinued simultaneously with the establishment of the new branch at Second and Maclay Streets and provided also that this branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

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



1707

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

Item No. 8  
5/22/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 22, 1963

Board of Directors,  
Pascagoula-Moss Point Bank,  
Moss Point, Mississippi.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Pascagoula-Moss Point Bank, Moss Point, Mississippi, of a branch on Highway 90 in the eastern corporate limits of Pascagoula, Mississippi, provided the branch is established within one year from the date of this letter.

In granting approval of this application, the Board of Governors understands that adequacy of the bank's capital funds will be reappraised in early 1964 at which time a program to sell capital stock will be formulated if a need exists.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

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



1708

**TELEGRAM**  
LEASED WIRE SERVICE

Item No. 9  
5/22/63

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON

May 22, 1963

Bryan - Atlanta

Board authorizes advertising for bids for construction of  
building for New Orleans Branch on the basis of plans and  
specifications referred to in Mr. Patterson's letter of  
April 1.

(Signed) Merritt Sherman

SHERMAN

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

-----  
In the Matter of the Application of  
FIRST WISCONSIN BANKSHARES CORPORATION,  
Milwaukee, Wisconsin,  
for prior approval of the acquisition  
of 80 per cent or more of the voting  
shares of Merchants & Savings Bank,  
Janesville, Wisconsin.  
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ORDER ON PETITION FOR RECONSIDERATION

This matter comes before the Board of Governors on a petition by First Wisconsin Bankshares Corporation, Milwaukee, Wisconsin, that the Board reconsider its Order dated January 31, 1963, whereby the Board denied the Petitioner's application, filed pursuant to section 3(a) of the Bank Holding Company Act of 1956, for approval of the acquisition of 80 per cent or more of the voting shares of Merchants & Savings Bank, Janesville, Wisconsin. Petitioner requests also that, if upon reconsideration the Board is not inclined to reverse its decision, Petitioner be given opportunity to present additional evidence, with adequate time for interrogation of witnesses.

The Board has reviewed its Order of January 31, 1963, and its accompanying Statement of the same date, together with the evidence upon which such Order was premised, all in the light of the factual

-2-

assertions, arguments, and offers of additional evidence set forth in the petition for reconsideration. On the basis of such review, the Board concludes (1) that the petition does not contain pertinent facts or arguments not available to and considered by the Board prior to its action of January 31, 1963; (2) that the additional facts and arguments which Petitioner asserts would be offered upon reconsideration of this matter would be, in major respects, cumulative of facts and arguments previously fully and fairly considered by the Board; and (3) that reasonable opportunity for adequate presentation of all facts and views on the issues relevant to the subject application was afforded Petitioner prior to the Board's Order of January 31, 1963. Accordingly,

IT IS HEREBY ORDERED, for the reasons above enumerated, that the petition for reconsideration herein and the request for opportunity to present additional evidence and to interrogate witnesses are denied.

Dated at Washington, D. C., this 22nd day of May, 1963.

By order of the Board of Governors.

Voting for this action: Unanimous, with all members present.

(Signed) Merritt Sherman

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Merritt Sherman,  
Secretary.

(SEAL)



Item No. 11  
5/22/63

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

-----  
In the Matter of the Application of  
FIRST WISCONSIN BANKSHARES CORPORATION,  
Milwaukee, Wisconsin,  
for prior approval of the acquisition  
of 80 per cent or more of the voting shares  
of American Bank and Trust Company,  
Racine, Wisconsin.  
-----

ORDER ON PETITION FOR RECONSIDERATION

This matter comes before the Board of Governors on a petition by First Wisconsin Bankshares Corporation, Milwaukee, Wisconsin, that the Board reconsider its Order dated January 31, 1963, whereby the Board denied the Petitioner's application, filed pursuant to section 3(a) of the Bank Holding Company Act of 1956, for approval of the acquisition of 80 per cent or more of the voting shares of American Bank and Trust Company, Racine, Wisconsin. Petitioner requests also that, if upon reconsideration the Board is not inclined to reverse its decision, Petitioner be given opportunity to present additional evidence, with adequate time for interrogation of witnesses.

The Board has reviewed its Order of January 31, 1963, and its accompanying Statement of the same date, together with the evidence upon which such Order was premised, all in the light of the factual assertions,



arguments, and offers of additional evidence set forth in the petition for reconsideration. On the basis of such review, the Board concludes (1) that the petition does not contain pertinent facts or arguments not available to and considered by the Board prior to its action of January 31, 1963; (2) that the additional facts and arguments which Petitioner asserts would be offered upon reconsideration of this matter would be, in major respects, cumulative of facts and arguments previously fully and fairly considered by the Board; and (3) that reasonable opportunity for adequate presentation of all facts and views on the issues relevant to the subject application was afforded Petitioner prior to the Board's Order of January 31, 1963. Accordingly,

IT IS HEREBY ORDERED, for the reasons above enumerated, that the petition for reconsideration herein and the request for opportunity to present additional evidence and to interrogate witnesses are denied.

Dated at Washington, D. C., this 22nd day of May, 1963.

By order of the Board of Governors.

Voting for this action: Unanimous, with all members present.

(Signed) Merritt Sherman

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Merritt Sherman,  
Secretary.

(SEAL)

UNITED STATES OF AMERICA

Item No. 12  
5/22/63

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

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In the Matter of the Application of

THE MARINE CORPORATION,  
Milwaukee, Wisconsin,

DOCKET NO. BHC-65

for prior approval of the acquisition  
of 80 per cent or more of the voting  
shares of The Beloit State Bank,  
Beloit, Wisconsin.

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## ORDER ON PETITION FOR RECONSIDERATION

This matter comes before the Board of Governors on a petition by The Marine Corporation, Milwaukee, Wisconsin, that the Board reconsider its Order dated January 31, 1963, whereby the Board denied the Petitioner's application, filed pursuant to section 3(a) of the Bank Holding Company Act of 1956, for approval of the acquisition of 80 per cent or more of the voting shares of The Beloit State Bank, Beloit, Wisconsin. Incident to its petition for reconsideration Petitioner requests permission to present its views orally before the Board.

The Board has reviewed its Order of January 31, 1963, and its accompanying Statement of the same date, together with the entire record upon which such Order was premised, all in the light of the factual assertions, arguments, and proffers of additional evidence contained in the petition for reconsideration. On the basis of such review, the Board

-2-

concludes (1) that the petition does not contain pertinent facts or arguments not available to and considered by the Board prior to its action of January 31, 1963; (2) that the additional facts and arguments which Petitioner asserts would be offered upon reconsideration of this matter would be, in major respects, cumulative of facts and arguments previously fully and fairly considered by the Board; and (3) that reasonable opportunity for adequate presentation of all facts and views on the issues relevant to the subject application was afforded Petitioner prior to the Board's Order of January 31, 1963. Accordingly,

IT IS HEREBY ORDERED, for the reasons above enumerated, that the petition for reconsideration herein and the request for opportunity to present views orally before the Board be and hereby are denied.

Dated at Washington, D. C., this 22nd day of May, 1963.

By order of the Board of Governors.

Voting for this action: Unanimous, with all members present.

(Signed) Merritt Sherman

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Merritt Sherman,  
Secretary.

(SEAL)





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

1715

Item No. 13  
5/22/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 23, 1963

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

Dear Mr. Crosse:

In accordance with the request contained in Mr. Bilby's letter of May 20, 1963, the Board approves the appointment of William V. Ferdinand as an assistant examiner for the Federal Reserve Bank of New York. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.





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

1716  
Item No. 14  
5/22/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 23, 1963

Mr. John L. Nosker, Vice President,  
Federal Reserve Bank of Richmond,  
Richmond 13, Virginia.

Dear Mr. Nosker:

In accordance with the request contained in your letter of  
May 20, 1963, the Board approves the appointment of Richard E. Alford  
as an assistant examiner for the Federal Reserve Bank of Richmond.  
Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

1717

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

Item No. 15  
5/22/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 23, 1963

Mr. John L. Nosker, Vice President,  
Federal Reserve Bank of Richmond,  
Richmond 13, Virginia.

Dear Mr. Nosker:

In accordance with the request contained in your letter of May 20, 1963, the Board approves the designation of Shelton G. Phaup as a special assistant examiner for the Federal Reserve Bank of Richmond for the purpose of participating in examinations of State member banks with the exception of Bank of Powhatan, Incorporated, Powhatan, Virginia, and State-Planters Bank of Commerce and Trusts, Richmond, Virginia.

The authorization heretofore given your Bank to designate Mr. Phaup as a special assistant examiner is hereby canceled.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

1718

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

Item No. 16  
5/22/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

May 22, 1963

AIR MAIL

Mr. E. H. Galvin, Vice President,  
Federal Reserve Bank of San Francisco,  
San Francisco 20, California.

Dear Mr. Galvin:

In accordance with the request contained in Mr. Cavan's letter of May 14, 1963, the Board approves the appointment of James H. Riding as an assistant examiner for the Federal Reserve Bank of San Francisco. Please advise the effective date of the appointment.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.