

Minutes for July 1, 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

W

Gov. Mills

[Signature]

Gov. Robertson

R

Gov. Balderston

CCB

Gov. Shepardson

[Signature]

Gov. King

[Signature]

Gov. Mitchell

[Signature]

Minutes of the Board of Governors of the Federal Reserve System on Monday, July 1, 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. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Fauver, Assistant to the Board  
Mr. Solomon, Director, Division of Examinations  
Mr. Hexter, Assistant General Counsel  
Mr. Shay, Assistant General Counsel  
Mrs. Semia, Technical Assistant, Office of the Secretary  
Mr. McClintock, Supervisory Review Examiner, Division of Examinations

Report on competitive factors (Watertown-Massena, New York).

There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Massena Banking and Trust Company, Massena, New York, into Watertown National Bank, Watertown, New York.

The report was approved unanimously for transmission to the Comptroller of the Currency. The conclusion of the report read as follows:

The banks proposing to merge are not competitive institutions and the proposed merger would not lessen competition. Following the merger, Massena would be served by two banks of more nearly equal competitive capability than is presently the case. However, intensified competition between these two banks would extend beyond Massena and could have adverse effects on smaller banks not in the immediate Massena competitive area.

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Report on competitive factors (Mount Holly-Vincentown, New Jersey). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The First National Bank of Vincentown, Vincentown, New Jersey, into The Union National Bank and Trust Company at Mount Holly, Mount Holly, New Jersey.

After a discussion during which a minor change in the wording of the conclusion was agreed upon, the report was approved unanimously for transmission to the Comptroller of the Currency. The conclusion of the report, as approved, read as follows:

Consummation of the proposed merger between The Union National Bank and Trust Company at Mount Holly and The First National Bank of Vincentown would eliminate the moderate amount of competition existing between the two banks. The addition of the resources of the county's smallest bank to those of the county's third largest bank would probably intensify competition among the three largest banks in Burlington County but could affect adversely the competitive position of the smaller bank in Medford, 4-1/2 miles southwest of Vincentown.

Report on competitive factors (Baltimore-Hagerstown, Maryland). There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of The Second National Bank of Hagerstown, Hagerstown, Maryland, into Maryland National Bank, Baltimore, Maryland. The conclusion of the draft report stated, in part, that consummation of the proposal would

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provide a potential threat to the ability of other local banks to continue to offer effective competition and remain independent units.

Governor Mills suggested omitting the portion of the conclusion that questioned the ability of the remaining small banks in the Hagers-town area to survive. His feeling that the Board should not include such statements extended to competitive factor reports generally, and not only to the one now under consideration. It was within the discretion of a particular bank to determine whether it wished to continue to operate as an independent unit or whether to sell out, perhaps at a high premium, to another institution. It was not within the purview of the Board to make determinations of that kind.

Governor Balderston commented that the point made by Governor Mills had caused him some concern. He also felt, however, that the Board should not appear to accept too readily the protestations of small banks that they would not be hurt by a merger proposed in their service area. If such expressions were referred to in competitive factor reports, care should be exercised to make it clear that those were the views stated by the banks themselves.

After further discussion, the report was approved unanimously for transmission to the Comptroller of the Currency, its conclusion being modified to read as follows in recognition of the point made by Governor Mills:

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There is virtually no competition between these two banks; however, Maryland National, the largest in the State, solicits the business of large customers throughout Maryland. Consummation of the proposal would provide a potential threat to the ability of other local banks to continue to compete effectively.

While the merger would not add substantially to Maryland National's resources, it would further the trend toward concentration of banking resources in the State.

Mr. Shay then withdrew from the meeting.

Mercantile Trust Company. On June 20, 1963, the Board informed Mercantile Trust Company, St. Louis, Missouri, through the Federal Reserve Bank of St. Louis, of the Board's view that certain transactions that Mercantile Trust expected to consummate on June 21, 1963, would involve violations of law. (In discussion with members of the Board's staff, Mr. Kenton R. Cravens, Chairman of the Board of Mercantile Trust, had held that contractual obligations precluded postponing consummation of the transactions until these legal questions had been determined, and that it would be necessary to complete the program and then do what could be done to resolve any such questions.) There were two principal points at issue. First, Mercantile Trust planned to make a "capital contribution" (later modified to a contribution to surplus) of \$4 million to its wholly-owned subsidiary, Mississippi Valley Company, in order to enable the latter to purchase another corporation, Mercantile Mortgage Company, and also several other corporations. The Board held that a contribution to either capital or surplus by Mercantile Trust Company would be prohibited by section 9 of the Federal Reserve Act

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and section 5136 of the Revised Statutes, as would the proposed stock purchases by the subsidiary. Second, Mercantile Mortgage Company maintained a number of offices in Missouri and in other States at which mortgage loans were made, and it was contemplated that Mississippi Valley Company would continue to operate those offices. The Board held that any office of a wholly-owned subsidiary of a member bank at which loans were made constituted a branch of the member bank, and that the operation of the offices here in question would be prohibited by section 9 of the Federal Reserve Act and section 5155 of the Revised Statutes.

At this meeting Mr. Hexter reviewed a letter dated June 21, 1963, in which Mr. Cravens informed the Board that the transactions were being consummated that day as planned. However, Mississippi Valley Company intended thereafter within a reasonable period of time and in an orderly manner to dispose of the stock of the corporations then owned by it, either by sale or by dissolving its then wholly-owned subsidiaries. Mr. Cravens' letter also stated that, while Mercantile Trust did not agree with the Board's conclusion that a contribution to the surplus of Mississippi Valley Company would violate the Federal Reserve Act, in deference to the Board's position Mercantile Trust would not at this time make any contribution as originally contemplated. As to the question of operating branches, Mr. Cravens stated that "while we do not agree with the Board's legal conclusions we are nonetheless accelerating our review of operations in the light of the Board's position. We hope to be in position to advise you further about this before the end of this month."

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Mr. Hexter also commented that he had had another visit from Mr. Neill, Counsel for Mercantile Trust, who discussed various matters relating to the bank's program. The discussion was of a general nature, it being understood that any actions or proposed actions designed to bring the program into conformity with the Board's position would have to be submitted formally and in specific terms, and presumably the Board would hear further from Mr. Cravens. Apparently, Mr. Hexter said, instead of making a contribution to either the capital or the surplus of its subsidiary to provide funds for the purchases involved in the program, Mercantile Trust had made a loan to Mississippi Valley Company.

In reply to a question, Mr. Hexter pointed out that if the necessary money was in fact obtained in the form of a loan, there would appear to have been no violation of law involved provided the requirements of section 23A of the Federal Reserve Act were observed. Further, although there would appear to have been a violation of law in the indirect acquisition by the member bank of the stock of seven corporations, evidently it was the intent to dispose of those stocks or to liquidate the subsidiary companies within a reasonable period of time. The remaining question would relate to the indirect operation of branches.

In reply to a further question, Mr. Hexter indicated that before the matter came before the Board again he would have looked more thoroughly into the relationship between this matter and the position taken by the Board in April 1958 in the matter of Devonshire Financial Service Corporation,

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a nonbanking subsidiary of The National Shawmut Bank of Boston, Boston, Massachusetts, a registered bank holding company.

Call for condition reports. In a letter dated July 1, 1963, the Chief of the Division of Research and Statistics of the Federal Deposit Insurance Corporation advised that pursuant to section 7 of the Federal Deposit Insurance Act the Chairman of the Board of Directors of the Corporation, the Comptroller of the Currency, and the Chairman of the Board of Governors of the Federal Reserve System had selected the close of business Saturday, June 29, 1963, as the date for the second call for reports of condition to be made by insured banks within the calendar year 1963. The letter also stated that the call would be announced on July 3, 1963.

In light of this letter, Mr. Sherman noted that it was proposed, in accordance with the usual procedure, to send a telegram today to the Presidents of all Federal Reserve Banks requesting that a call be made on State member banks on July 3, 1963, for reports of condition as of the close of business June 29, 1963.

The sending of such a telegram was approved unanimously.

The meeting then adjourned.

Secretary's Notes: On June 27, 1963, Governor Shepardson approved on behalf of the Board merit salary increases, as recommended by the respective divisions and offices, for the following members of the staff effective July 7, 1963:



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<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Office of the Secretary</u>			
Marjorie Eaton, Secretary		\$ 6,835	\$ 7,020
Ida Goodloe, Supervisor, Stenographic Section		6,835	7,020
Cornelia A. Bates, Supervisor, Non-current Records and Records Disposal		6,395	6,565
Adaline R. Beeson, Records Analyst		6,225	6,395
Nancy H. McCaslin, Indexing and Reference Assistant		6,055	6,225
<u>Legal</u>			
Walter P. Doyle, Attorney		7,575	7,800
<u>Research and Statistics</u>			
Normand R. V. Bernard, Economist		11,050	11,365
Natalie C. Strader, Survey Statistician (Economics)		7,350	7,575
<u>International Finance</u>			
Henry N. Goldstein, Economist		9,790	10,105
Ann N. Vermeulen, Clerk		4,110	4,250
<u>Bank Operations</u>			
Edwin G. White, Technical Assistant		8,310	8,575
Sarah L. Trott, Secretary		6,835	7,020
Pearle E. Randour, Supervisor, Reserve-Member Banks Statement Unit		6,280	6,465
<u>Examinations</u>			
James R. Smith, Review Examiner		8,310	8,575
Irwin W. Robinson, Federal Reserve Examiner		8,310	8,575
Ann C. Tompros, Secretary		6,055	6,225
Carol A. Slocombe, Stenographer		4,390	4,530
<u>Personnel Administration</u>			
John C. Brennan, Personnel Assistant		10,420	10,735

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Salary increases, effective July 7, 1963 (continued)

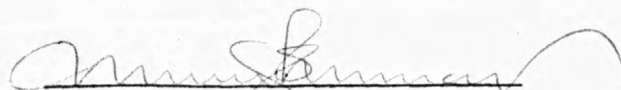
<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Administrative Services</u>			
Mary E. Sanders, General Assistant		\$ 7,575	\$ 7,800
Charles H. Ward, Laborer		3,980	4,085
Walter Jordan, Messenger		3,455	3,560
Theodore Jones, Messenger		3,455	3,560
<u>Data Processing</u>			
Lyla E. Szillat, Key Punch Supervisor		5,090	5,230

Governor Shepardson today approved on behalf  
of the Board the following items:

Letter to all foreign banking and foreign financing corporations  
calling for reports of condition as of June 30, 1963.

Memorandum from the Division of Research and Statistics recommending  
an increase in the basic annual salary of J. Cortland G. Peret, Economist  
in that Division, from \$11,515 to \$12,245, effective July 7, 1963.

Amendment of a previous foreign travel authorization for Mr. Young,  
Adviser to the Board and Director, Division of International Finance, so  
as to authorize Mr. Young to attend a meeting of Working Party 3 of the  
Economic Policy Committee of the Organization for Economic Cooperation  
and Development in Paris, France, on July 12-13, 1963, and to meet with  
Officials of the British Bank and Treasury in London, England, on July 14-15.  
This additional authorization was given on the basis of actual expenses  
incurred, including official entertainment.

  
Secretary