FR 609
Rev. 9/61

Minutes for July 10, 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 Wednesday, July 10, 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. Mitchell

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Daniels, Assistant Director, Division of Bank Operations
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Benner, Assistant Director, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the Secretary
Mr. Hricko, Senior Attorney, Legal Division
Mr. Young, Senior Attorney, Legal Division
Mr. McClelland, Assistant to the Director, Division of Examinations
Mr. McClintock, Supervisory Review Examiner, Division of Examinations
Mr. Egertson, Review Examiner, Division of Examinations
Mr. Sundberg, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Boston on July 8, 1963, and by the Federal Reserve Bank of Philadelphia on July 9, 1963, of the rates on discounts

and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

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 First Chicago International Finance Corporation, Chicago, Illinois, granting permission to purchase stock of Philippines National Leasing Corporation, Manila, Philippines.	1
Letter to Chairman Robertson of the Senate Committee on Banking and Currency regarding procedures for granting charters and approving branches of national and State banks.	2
Letter to the Bureau of the Budget reporting on a Treasury draft bill to amend section 5200 of the Revised Statutes to increase the limit on the maximum liability of a single borrower to a national bank.	3

Item No. 3 was approved in a form revised pursuant to the discussion at the meeting of the Board on July 3, 1963, further minor changes in wording being agreed upon at this meeting.

Mr. Young then withdrew from the meeting.

Capital of United California Bank (Item No. 4). There had been distributed a memorandum dated July 8, 1963, from the Division of Examinations regarding the plans of United California Bank, Los Angeles, California, for improving its capital structure. After a study of its capital situation, the bank proposed to recommend to its directorate

an increase of $50 million in capital funds, of which $25 million would be obtained through the issuance of common stock and $25 million through the issuance of capital debentures. However, after a conference between representatives of the bank with members of the Board's staff, at which the latter expressed the view that a larger addition to capital would be desirable, the bank modified its plan to call for the issuance of $25 million in common stock and $35 million in capital debentures. The memorandum discussed the recent deterioration in the capital ratio of the bank and the degree of improvement that would be effected by the proposed addition to capital. Several schedules were attached showing capital ratios of United California Bank in comparison with other banks. It was noted that, although the Board did not consider issuance of debentures the most desirable way of providing capital, the debentures United California proposed to issue would constitute only about 13 per cent of its total capital. The Division concluded that the bank's plan would improve its capital structure substantially, to a position that would be reasonably satisfactory in view of the bank's competent management and satisfactory asset condition. It was recognized that in view of the bank's continuing growth, the matter of additional increases in capital funds should be of continuing concern to the bank and the supervisory authorities. The bank had indicated that a thorough review of its capital position would again be undertaken in about one year. Vice President Galvin of the Federal Reserve Bank of San Francisco had recommended that the bank's proposal be accepted. Attached to the

memorandum was a draft of letter to United California Bank that, after reviewing the bank's plans, would state that although the Board continued of the view that capital debentures were not as desirable a means of capital expansion as common stock, the Board recognized that capital funds derived from debentures do provide protection for depositors and that the proposed proportion of debentures to total anticipated capital structure would be relatively moderate.

At the Board's request Mr. Solomon reviewed the history of the capital adequacy problem at United California Bank and the development of the bank's present proposal. While the Board frowned upon the use of debentures for capital expansion, there was no authority available to the Board to prevent the bank from using them, especially in an amount that was modest in relation to its total capital structure. It might be considered that the desirability of having an increase in capital outweighed the undesirability of obtaining it through issuing debentures, so long as they did not constitute too great a part of total capital. With the proposed capital addition, taking into account seasonal factors and continued growth, United California would have capital equal to approximately 80 to 85 per cent of the amount called for by the analysis form. That percentage was not ideal, of course, but it was relatively good in comparison with capital ratios of other large banks in California. On balance, it seemed to the Division of Examinations that the Board might accept the bank's plan, but reiterate its dislike of raising capital through issuance of debentures.

Governor Mills commented that, while he was cognizant of the point that the Board had no sanction to prevent the use of debentures, it was disappointing that an important bank would not show better leadership by not choosing that means of raising capital. The debentures would have a prior claim on the bank's earnings, which could be a detriment to the issuance of additional common stock. His principal objection always had been that, since a commercial bank operated on borrowed money, which is what deposits are, the institution and also the form of capital it had to protect its deposit liabilities should be simon-pure; the capital should be derived from common stock. Since United California was owned by Western Bancorporation, it would be important for the Board to have some knowledge as to who would provide the common stock capital and who would provide the debenture money. It was known that Western Bancorporation had borrowed a substantial sum recently, which was to be retired by the sale of First Western Bank and Trust Company, Los Angeles. It would be well to know if the funds for United California's additional capital would come from Western Bancorporation or from other sources, with the possibility in the latter event of a dilution of Western Bancorporation's ownership of United California. Governor Mills was also apprehensive that if United California raised capital through issuing debentures, Western Bancorporation would be prompted to have its other bank subsidiaries also resort to that device.

Mr. Solomon responded that it was planned that the debentures would be sold on a private placement basis, principally to pension funds. Western Bancorporation would not purchase the debentures but would purchase the common stock to the extent of its pre-emptive rights, and for that purpose it proposed to borrow. The borrowing was not a desirable feature of the plan, but it might be said that Western Bancorporation's debt was only a small percentage of its net worth. Most of the debt the holding company had incurred in order to purchase First Western Bank and Trust Company had been repaid when that bank was sold. While it would be preferable that bank holding companies have no debt, quite a number of them did. Since the $25 million that Western Bancorporation would borrow in order to purchase the new United California common would be only a modest proportion of the holding company's net worth, Mr. Solomon did not believe that there were strong grounds for objection, although, of course, if the situation worsened it might become objectionable.

Governor Robertson stated that it was difficult for him to accept United California's plan; however, he believed that the question of issuing debentures to obtain capital was neither black nor white, but grayish. Also, national banks now had authority to raise capital through debentures, and therefore he was of the opinion that the Board could not adhere to an effort to prevent the use of debentures.

Governor Balderston commented that his concern over the increasing use of debentures to provide bank capital was the leverage

factor of borrowing to magnify a bank's earnings ratio. One reason that banks might be turning to debentures was their difficulty in marketing common stock; bank stocks did not carry as high a dividend rate as did stocks of many other types of corporations. He asked Governor Mills what had been the trend in returns on bank stocks since the depression of the early thirties.

Governor Mills replied that it was his impression that returns on bank stocks had moved more or less steadily upward. After the depression banks were doing little lending or investing, and consequently had only a low volume of earnings from which to pay dividends. He was under the impression, however, that bank stocks regained their attractiveness as investments because of safety and security rather than because of their yields.

Governor Balderston stated that he could find United California's capital proposal acceptable for two reasons. The first was the point mentioned by Governor Robertson - that national banks were now allowed to raise capital by issuing debentures. The second was that, with the banking system generally needing more capital, and with bank earnings not supporting dividends that were as strong a magnet as other corporate stocks could offer, alternative sources of capital must be found.

After further discussion, the letter to United California Bank was approved unanimously. A copy is attached as Item No. 4.

Application of Wilmington Trust Company. There had been distributed a memorandum dated July 5, 1963, from the Division of

Examinations in connection with the application of Wilmington Trust Company, Wilmington, Delaware, to purchase certain of the assets and assume the deposit liabilities of the Camden (Delaware) branch of Baltimore Trust Company, Selbyville, Delaware, and, incident thereto, to invest an additional $66,000 in bank premises. The memorandum explored the circumstances surrounding the application, with special reference to the factors cited for consideration by the Bank Merger Act. It was noted that Wilmington Trust had merged with eight banks within the past 12 years and thereby gained 10 offices and $39.5 million in deposits. However, its proportion of total deposits in the State had increased only .5 per cent, from 40.3 to 40.8 per cent, in the 15-year period ending June 30, 1962. The transaction presently proposed would add to Wilmington Trust one office and .3 per cent of the State's deposits.

Representatives of the Federal Reserve Bank of Philadelphia had offered divergent recommendations. Examining Officer Ensor and General Counsel Goodwin recommended approval, while Vice President Campbell recommended denial. All three officers agreed that the substitution of a branch of Wilmington Trust for the branch of Baltimore Trust would provide the growing Camden area with better banking facilities at a time when the need for such broader services was increasing, and that the amount of competition that might be eliminated was not significant. The sole questionable aspect was the increase in size, however

small it might be, of the largest bank in Delaware. Vice President Campbell contended that, since the proposed acquisition was not a "rescue operation," the time had come to halt the growth of Wilmington Trust through mergers. The conclusion of the Division of Examinations was that, while the case appeared close, on balance the positive aspects appeared to outweigh the factor of limited additional concentration and thereby supported approval.

At the Board's request, Mr. McClintock summarized the salient points of the application, basing his remarks primarily on the July 5 memorandum from the Division of Examinations. Among other things, he brought out that, while there appeared to be little, if any, competition between the Camden office of Baltimore Trust and any of the offices of Wilmington Trust, there was a potential for competition in that Wilmington Trust had received the Board's approval of the establishment of a branch in Dover, Delaware, about 4 miles from Camden. Also, there was an aggressive independent competitor, The First National Bank of Wyoming, Wyoming, Delaware, about one mile northwest of Camden. The two factors that the Division of Examinations considered to support denial were the slight increase in banking concentration and the elimination of potential competition. Neither of these appeared especially significant, and offsetting them were prospects for improved management and earnings, the availability of broader banking services, increased competition, and the simple desire of Baltimore Trust to discontinue operations in Camden.

Mr. Shay remarked that, while the Legal Division had originally reviewed the application without comment, he felt that the matter was a very close one because of the high degree of banking concentration that already existed in Delaware. Of the 19 banks in the State, 15 were very small and the remaining 4 held 89 per cent of total deposits in the State. Wilmington Trust was the largest. However, it seemed to him that since the present proposal involved only a branch rather than a unit bank, and since the branch had not been well managed and Wilmington Trust would provide improved management, approval of the application might be reconciled with the slight increase in banking concentration that would result if the transaction was consummated.

There ensued a discussion of the bearing upon this application of the Supreme Court's ruling on June 17, 1963, that the proposed merger of The Philadelphia National Bank and Girard Trust Corn Exchange Bank, both of Philadelphia, Pennsylvania, would violate the Clayton Antitrust Act. Comments were also made on the character of the State of Delaware, the northern part of which was highly industrialized and the southern part largely agricultural, although industrialization was increasing there. It was noted that large banks in the northern part of the State were reaching into the southern part with branches.

The members of the Board then expressed their views, beginning with Governor Mills, who stated that he would approve the application for the reasons cited by the Division of Examinations, which constituted a balancing of the factors required to be surveyed under the bank merger

statute. In his opinion, that balance weighed in favor of approval. The addition to Wilmington Trust's resources was minimal, and the transaction would merely replace Baltimore Trust with Wilmington Trust in the branch location, without changing the complex of banking services and competition in the area; in fact, the replacement would assure a better range of banking services. He considered it important to recall that Delaware is a small State, with an estimated population of about 458,000 in 1961, or little more than half the population of the District of Columbia. When considering what number of banking facilities would be appropriate for such a geographical area and population, a substantial banking concentration within 4 banks appeared less significant than it would be if a concentration spread over a much wider area, such as California, were involved. In Governor Mills' view, the concentration factor was not decisive in this case.

Governor Robertson stated that he would disapprove. Wilmington Trust, the largest bank in the State, had entered into several mergers in the past ten or twelve years, and it had 40 per cent of the deposits in the State. As for the competitive point of view, Wilmington Trust had already been authorized to go into the area with a new branch in Dover, and it could provide all the services called for by the convenience and needs factor. In addition, The First National Bank of Wyoming could provide all necessary services. Thus, from the competitive point of view and the convenience factor Governor Robertson saw nothing to favor

the application, but he did see danger in allowing a large bank to become still larger.

Governor Shepardson remarked that to him this case, though small, was difficult. The broadened services that Wilmington Trust would provide in Camden he regarded as justified, although, as Governor Robertson had pointed out, they would be provided at least in part by Wilmington Trust's Dover branch. As Governor Shepardson saw the picture, a changing situation was involved, in which what had been an entirely agricultural area, served by a community bank, was becoming increasingly industrial, with credit needs different from those the Camden office of Baltimore Trust was prepared to offer. That would seem to justify the acquisition, although Governor Shepardson was bothered by the matter of total dominance and the addition to Wilmington Trust of even a minimal percentage of the State's banking resources. The application presented a difficult situation that could be argued both ways, but in the end, in view of the desire of Baltimore Trust to get out of Camden, he would be inclined to approve.

Governor Mitchell commented that he did not take any stock in the service arguments that had been advanced. He thought the services were already available in the area, and, if not, they would be when Wilmington Trust opened its Dover branch. However, he believed that the Board must face the fact that Baltimore Trust was not running the Camden office the way it should be, and it seemed improbable that it could be forced to do so. Therefore, he would approve the application.

He did not believe that the Supreme Court's pronouncements should influence the Board's judgment in a case like this; if the merger contained any circumstances contrary to the antitrust statutes, it was the responsibility of the Department of Justice to pursue the matter.

Governor Balderston stated that at first glance all of the figures relating to the application had led him to the conclusion of Vice President Campbell of the Philadelphia Reserve Bank that it was time to halt the growth of Wilmington Trust through mergers. However, he then had begun thinking of some of the circumstances mentioned by Governors Mills and Mitchell and had asked himself whether, if he were a resident of the Camden community, he would feel better served to have Wilmington Trust operate the Camden office rather than Baltimore Trust, and the answer was in the affirmative. The factor of management was what led him to a position favoring approval.

Chairman Martin said that he also would approve, adding that Governor Mitchell had made a good point that the Board could not force the management of Baltimore Trust to operate effectively in Camden.

The application of Wilmington Trust Company was thereupon approved, along with the requested additional investment in bank premises, Governor Robertson dissenting. It was understood that the Legal Division would prepare for the Board's consideration drafts of

an order and statement reflecting this decision, and that a statement reflecting Governor Robertson's dissent also would be prepared.

Messrs. Shay, Hricko, Benner, McClelland, Egertson, and Sundberg then withdrew from the meeting and the following entered the room:

Mr. Noyes, Director, Division of Research and Statistics
Mr. Dembitz, Associate Adviser, Division of Research and Statistics
Mr. Partee, Chief, Capital Markets Section, Division of Research and Statistics
Mr. Bakke, Senior Attorney, Legal Division
Mr. Potter, Senior Attorney, Legal Division

Inquiry regarding float and Federal Reserve notes. In a letter dated March 5, 1963, Chairman Fascell of the Legal and Monetary Affairs Subcommittee of the House Committee on Government Operations requested the Board's current thinking with regard to questions on which the Board had submitted comments several years ago to the Foreign Operations and Monetary Affairs Subcommittee. The questions related to check float (particularly the question of changing deferment schedules from a two-day to a three-day maximum to reduce such float), one central issue of Federal Reserve notes, and local destruction of Federal Reserve notes. In an interim reply dated March 19, 1963, Chairman Martin expressed the hope that the Board would be able to give its further views on these matters by the first of July. In the meantime, the questions were referred to the Conference of Presidents for comments and suggestions, and the views expressed by the Reserve Bank

Presidents were discussed at a joint meeting of the Board and the Presidents on June 18, 1963. There had now been distributed a memorandum dated July 3, 1963, from Mr. Farrell, to which were attached drafts of replies to the three questions.

The proposed reply in regard to float took the position that, while Federal Reserve Bank deferment schedules regarding interdistrict country items should be changed, it would not be desirable to make the change at this time. That position was believed to be consistent with the views expressed by the Conference of Presidents.

During discussion a number of changes in the reply were suggested. Especially, modifications in language were agreed upon to avoid committing the Board to the position that deferment schedules regarding interdistrict country items should be changed. Comment was made that before the Board committed itself to such a position there should be a full-scale study of alternatives, especially since the area involved was one of rapidly-changing technology. It was noted that the proposed reply emphasized the importance of timing and that any change the Board might make in the maximum deferment schedules should be correlated with the circumstances and atmosphere of monetary policy. In other words, it implied that a change to a three-day maximum deferment would be made only at a time when such action seemed compatible with the prevailing requirements of monetary policy.

The discussion then turned to the proposed reply regarding a single issue of Federal Reserve notes. However, as the proposed reply indicated, any economic advantage in replacing the 12 separate issues of Federal Reserve notes with one central issue would result from the manner in which the notes were retired rather than from the manner in which they were printed, and therefore the discussion meshed with that on the proposed reply regarding local destruction of unfit Federal Reserve notes.

Mr. Farrell commented that the Board's 1960 reply on the question of a single issue had stated that the Board was inclined toward the view that it would be undesirable to make any change in the then present form of Federal Reserve notes unless such a change were a part of a general program for simplifying the currency structure of the United States. It was possible that the recent legislation providing for withdrawal of silver certificates and issuance of Federal Reserve notes in $1 and $2 denominations might be regarded as such a change. The $1 notes would be, of course, the largest piece volume, and there was general agreement that it would be completely undesirable to have to sort them by Bank of issue. That problem had led to a proposal that a formula be developed that would show, over a period of time, the typical pattern of redemptions according to district and denominations, the Reserve Banks then to reduce their liabilities in the amounts the formula indicated as typically becoming

unfit, and the notes destroyed at the Bank at which they had been sorted as unfit. Mr. Farrell then described the efforts that were being made to develop a formula that would be reasonably accurate, and alternatives, all of which would be costly, that could be resorted to if a workable formula could not be devised. A question had been raised as to whether a change in the law would be necessary to permit note liabilities to be determined on a formula basis. Some doubt had been expressed in the Division of Bank Operations as to whether a change in the law was necessary, but if it was, the Division strongly hoped that it would not be so specific as to inhibit flexibility in changing from one procedure to another as results might dictate. Mr. Farrell noted that the Reserve Banks for some time had been estimating some of their liabilities for Federal Reserve notes. They did not sort fit notes according to Bank of issue; their own were a deduction from their liability, and those of other Banks were carried as an asset. Also, the Government securities assets of the Banks had been allocated for some time without specific legal authority.

Mr. Hexter commented that he agreed that it would be desirable to find a procedure that would avoid the wasteful expense of sorting $1 Federal Reserve notes by Bank of issue. However, the legal problem related to the fact that the regional system created by the Congress in the Federal Reserve Act contemplated that each Reserve Bank would stand on its own feet with respect to its outstanding notes. It was his impression that the Treasury Department was in agreement that an

amendment would be necessary to have Federal Reserve notes destroyed in the field. If such legislation was proposed, it would seem feasible to expand it to authorize the formula procedure with whatever flexibility seemed desirable. He noted that Mr. Bakke had been looking into the question of the legality of the use of a formula in note redemptions.

Mr. Bakke stated that preliminary research indicated a rather serious legal impediment to the use of a formula without some change in the statute, primarily because of the procedures prescribed in the Federal Reserve Act for the issuance of notes. When a Reserve Bank applies to the Federal Reserve Agent for an issuance of Federal Reserve notes, it is required to tender collateral in the total amount of the notes requested. The statute contemplates that that collateral will be maintained at 100 per cent against notes outstanding. The statute allows a draw-down of collateral only upon return of notes or substitution of collateral. Under allocation by formula, it was conceivable that a Bank would be credited with destruction of more notes of its issue than were actually destroyed. The Bank might draw down the collateral with the Federal Reserve Agent underlying the supposedly destroyed notes or it might use that increment of collateral to support receipt of additional notes from the Agent. Thus the Bank would have outstanding more notes than the collateral would support. At this time, it seemed to the Legal Division that such a result would be in direct conflict with the statute, and therefore that the statute would not permit the use of allocation of redemptions by formula.

Mr. Hexter added that the Legal Division felt that this situation was regrettable, but was a concomitant of a regional system. So far as he could see, there was no advantage to the regional system in this respect; however, if the Board departed from the terms of the statute, the Board's critics would have an apparently valid ground for criticizing it for trying to weave into a single account the regional issuance of Federal Reserve notes provided by Congress.

Mr. Farrell remarked that there would have to be legislation to avoid having all the $1 Federal Reserve notes sent to Washington for destruction. The Federal Reserve Act required that unfit Federal Reserve notes be returned to the Comptroller of the Currency, but the Treasury was adamant against undertaking the task of their destruction, and was working on legislation to permit their destruction in the field. In view of that fact, he suggested that the proposed reply to the question regarding local destruction of Federal Reserve notes be sent to the Treasury Department for comment before it was transmitted to Chairman Fascell.

The discussion next turned to the fact that the proposed reply to the third question took the position that steps should be taken to arrange for local destruction of $1, $5, and $10 Federal Reserve notes, whereas the Conference of Presidents had voted that local destruction be limited, at least at this time, to the $1 notes. However, during subsequent discussion with the Board, some of the Presidents had indicated a feeling that local destruction might well be extended to include the $5 and $10 notes.

It was recalled that in its previous reply the Board had expressed the view that the expense of shipping the notes to Washington was outweighed in importance by the potential risks of collusion in removing higher denomination notes that were intended for destruction. Response was made that when the Board took that position, the System had been having some trouble with the currency destruction procedure, whereas improved procedures had now been developed. However, the risks of collusion appeared greater with respect to the higher denominations, which might perhaps justify the additional expense of shipping larger denomination unfit notes to Washington for destruction.

Governor Mills commented that the discussion had gone beyond the scope of the replies to be made to Chairman Fascell into problems of implementing the procedures involved. The replies represented a tentative approach, but final decisions could wait until later when each program would be considered separately.

After further discussion it was agreed that the Treasury Department should be given an opportunity to review the replies to the questions relating to issuance and destruction of notes before they were transmitted to Chairman Fascell; that the three draft replies, with the various revisions agreed upon at this meeting, should be sent to the Federal Reserve Bank Presidents, who should be informed that the Board expected to send the replies to Chairman Fascell shortly but

would appreciate any comments that the Presidents might wish to offer; and that the Board's staff should work with the staff of the Treasury Department in developing draft legislation that would provide whatever authority was necessary to permit local destruction of unfit Federal Reserve notes and the use of an allocation formula.

Secretary's Note: The proposed replies to Chairman Fascell were sent to the Federal Reserve Bank Presidents on July 12, 1963, and to Secretary of the Treasury Dillon under date of July 16, 1963.

Mr. Bakke then withdrew from the meeting.

Special study, Securities and Exchange Commission (Item No. 5).

There had been distributed letters dated June 21 and July 3, 1963, from the Securities and Exchange Commission regarding the chapter on security credit of the report of the Commission's special study of the securities markets. The Board's staff had cooperated in the preparation of the chapter to the extent of supplying two statistical appendices, conducting interviews that were reflected in questions and answers in a third appendix, and reviewing the chapter for technical accuracy. The Commission proposed that the chapter, along with several others, would be published about the middle of July. This material, however, would be published as representing the conclusions and recommendations of the staff study group, without purporting to speak for the Board or the Commission as such. In anticipation of publishing the chapter, the Commission suggested that a meeting be arranged between

representatives of the Commission and the Board during the week of July 8, after the Board had had an opportunity to review the draft of the chapter. The Commission recognized that the Board might wish to make its own publication of at least the material in the two statistical appendices; the special study, of course, did not mean to pre-empt the publication by including them in its chapter on security credit. It was suggested that the manner of publication, including the possibility of simultaneous publication, be discussed at the meeting to be arranged.

At the Board's request, Mr. Noyes commented on the inquiries from the Securities and Exchange Commission. It had seemed to the Board's staff that the recommendations in the chapter on security credit were appropriate for the special study group to make, and that time and trouble might be saved by informing the Commission that the publication procedure it had suggested would be entirely appropriate and, since the conclusions and recommendations of the study group would not purport to speak for the Board, there seemed to be no necessity for a formal meeting prior to the release of the study. He distributed copies of a draft of letter framed in those terms.

Governor Mills commented that the report of the special study on security credit was excellent and reflected the great amount of thought and effort that had gone into it. However, he had some fear that upon publication, even though it was described as the report of a study group, it might be regarded as emanating from the Federal Reserve

Board or as embodying Federal Reserve recommendations. There was, indeed, a grave need of corrective legislation in the field of security credit, such as better control of unregulated lenders and bringing unlisted stocks into the purview of legislation. However, when such legislation was sought there was certain to be animosity, especially in regard to regulation of loans on unlisted stocks. Granted, there was a substantial amount of credit extended on unlisted stocks, but those loans were made at the discretion of banks and on their judgment as to whether they had taken sufficient collateral. To consider every such loan a purpose loan rather than a nonpurpose loan would rob banks of their area of judgment. There would be just as much reason for imposing regulations on unsecured loans by banks. Bringing loans on unlisted securities under regulation would shrink a large area of credit that was serving worthwhile economic purposes and would put banks in the position where, if they wanted to meet those credit requirements, they would have to beat around the bush, perhaps taking less collateral and lending more on an unsecured basis. He would be much concerned about the recommendation to regulate loans on unlisted stocks because it could defeat the purpose of the over-all reform when it came to the point of legislation. He reiterated the belief that the report of the special study might not be regarded as a study report but as a response of the Federal Reserve - just as the report of the President's Committee on Financial Institutions earlier this year had been taken to have the blessing of the organizations in which the members of the Committee served.

It was brought out that the material contributed by the Board's staff for use in the study included no opinions or recommendations and that several passages in the two letters from the Securities and Exchange Commission indicated that the manner of publication of the chapter would make it amply clear that no attempt was being made to speak for the Board or to encroach upon the area of the Board's responsibilities in the field of security credit.

After further discussion the letter was approved unanimously in the form attached as Item No. 5.

Messrs. Noyes, Dembitz, Partee, and Potter then withdrew from the meeting.

New York gold vault. The agenda for today's meeting called for further discussion of the proposal for expansion of the gold storage facilities of the Federal Reserve Bank of New York, which had been the subject of a conference between the Board and representatives of the New York Bank on June 18, 1963.

Mr. Farrell reported that in the interim Vice President Harris of the New York Bank had made an informal investigation of the adequacy of the vault facilities of the United States Assay Office in New York City, one of the alternatives to which consideration had been given. It appeared that the Assay Office facilities were far inferior to those at the New York Bank. The Assay Office vault was one story below ground and four above, and especially from the point of view of security, the Assay Office vault appeared so inadequate that it might be dropped from consideration.

During discussion comment was made that the intangibles of the New York Bank's function in holding gold for foreign central banks were an important consideration. The inadequacy of security facilities at the Assay Office also lent weight to the side of approving the New York Bank's proposal. However, hesitation was expressed by some Board members as to the advisability of a further concentration of gold in New York. The feeling was expressed that Fort Knox or other Federal Reserve Banks did not offer suitable alternatives. It was suggested, however, that it might be well to investigate further the possibility of using facilities such as the silver storage facilities at West Point, New York; if they were adaptable to supplement the vault in New York, the money proposed to be spent for enlarging the New York vault might be better spent, and at the same time the gold stored would not be at any great distance from New York. Further comments indicated a reluctance by these Board members to approve the expense of enlarging the New York vault without a more thorough exploration of alternatives.

At the conclusion of the discussion it was agreed that Messrs. Farrell, Solomon, and Harris (Coordinator of Defense Planning) would visit New York and West Point to study possible solutions of the problem of gold storage and make recommendations to the Board.

Loan of services of Mr. Dembitz. Governor Shepardson reported receipt of a request from the Agency for International Development of the Department of State for the reimbursable detail of Mr. Dembitz, Associate Adviser in the Division of Research and Statistics, for a

period not to exceed 90 days beginning on or about July 8, 1963. Mr. Dembitz would accompany a team of advisers to the Agency's mission in Brazil to investigate private and foreign investments in private enterprise in Brazil and to make recommendations to the mission regarding policies, procedures, and methods for the mission to contribute to the new and expanded credit facilities.

The request of the Agency was approved unanimously.

The meeting then adjourned.

Secretary's Notes: On July 9, 1963, Governor Shepardson approved on behalf of the Board a memorandum from the Division of Administrative Services recommending the appointment of John I. Mitchell as Operating Engineer's Helper in that Division, on a temporary basis for a period of about three months, with basic annual salary at the rate of $4,701, effective July 10, 1963.

Governor Shepardson today approved on behalf of the Board a memorandum from the Division of International Finance recommending the appointment of Cynthia Lee Young as Clerk in that Division, with basic annual salary at the rate of $3,820, effective the date of entrance upon duty.

Secretary

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

Item No. 1
7/10/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 10, 1963

First Chicago International Finance Corporation,
38 South Dearborn Street,
Chicago 90, Illinois.

Gentlemen:

In accordance with the request contained in your letter of May 20, 1963, transmitted through the Federal Reserve Bank of Chicago, and on the basis of information furnished, the Board of Governors grants consent for First Chicago International Finance Corporation to purchase and hold 30,000 shares, par value ₱10 each, of Philippines National Leasing Corporation, Manila, Philippines ("PNLC"), a corporation in process of organization, at a cost of approximately US$75,000, provided such stock is acquired within one year from the date of this letter.

The Board's consent is granted upon condition that First Chicago International Finance Corporation shall dispose of its holdings of stock of PNLC, as promptly as practicable, in the event that PNLC should at any time (1) engage in issuing, underwriting, selling or distributing securities in the United States; (2) engage in the general business of buying or selling goods, wares, merchandise, or commodities in the United States or transact any business in the United States except such as is incidental to its international or foreign business; or (3) otherwise conduct its operations in a manner which, in the judgment of the Board of Governors, causes the continued holding of its stock by First Chicago International Finance Corporation to be inappropriate under the provisions of Section 25(a) of the Federal Reserve Act or regulations thereunder.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 2
7/10/63

OFFICE OF THE CHAIRMAN

July 12, 1963

Honorable A. Willis Robertson, Chairman,
Committee on Banking and Currency,
United States Senate,
Washington 25, D. C.

Dear Mr. Chairman:

This will acknowledge receipt of a copy of your letter of May 29, 1963, addressed to Honorable James J. Saxon, Comptroller of the Currency, regarding procedures for granting charters and approving branches of national and State banks, particularly in relation to recent experience in the 10th Congressional District of the State of Virginia. Your letter to Mr. Saxon indicates that you also desire the views of the Board of Governors in the matter.

The Board has not had occasion to hold any public hearing with respect to the admission of a proposed newly chartered State bank to membership in the Federal Reserve System or with respect to the establishment of a branch of a State member bank. The admission of a proposed new State bank to membership is always predicated on its opening for business under a charter granted by State banking authorities. Also, as a matter of policy, the Board does not act on an application to establish a branch of a State member bank unless and until the branch is approved by State banking authorities. The Board does not have information as to the number of States that require hearings either with respect to bank charters or branches.

Under section 9 of the Federal Reserve Act and the Board's Regulation H, and Sections 4 and 6 of the Federal Deposit Insurance Act, the Board in passing on applications for membership of proposed newly chartered State banks must give consideration to:

1. The financial history and condition of the bank;
2. The adequacy of its capital structure;
3. Its future earnings prospects;
4. The general character of its management;
5. The convenience and needs of the community to be served by the bank; and
6. Whether or not its corporate powers are consistent with the purposes of the Federal Deposit Insurance Act.

(Proposed newly chartered State member banks must have capital and surplus in an amount equal to that which would be required for the establishment of a national bank in the place in which located.)

Information regarding these matters generally is developed in part through a field investigation made by examiners for the Reserve Bank -- usually in cooperation with examiners for the State authorities -- and consideration is given also to the competitive factors involved and possible conflicting applications in the area to be served. In connection with the bank's admission to membership, the Board must certify to the Federal Deposit Insurance Corporation that consideration was given to the six factors heretofore enumerated.

Under section 9 of the Federal Reserve Act and the Board's Regulation H, the Board in passing on applications for branches of State member banks gives consideration to the financial condition, management, and corporate powers of the applying bank, including such matters as the location and operation of any existing branches and the following factors relating to the proposed branch:

1. Location and estimated population of the community or area to be served;
2. Economic character of the community to be served and need for banking convenience;
3. Distance from other banking offices;
4. Competitive situation or tendency toward monopoly;
5. Reasons for establishment; and
6. Scope of functions and prospects for successful operation.

(In establishing branches, State member banks are subject to the same capital requirements and restrictions as to location as national banks.)

As is the case with proposed newly chartered State member banks, the foregoing information generally is developed in part through a field investigation made by examiners for the Reserve Bank -- usually in cooperation with State examiners -- and consideration is given to possible conflicting applications in the area to be served.

As regards statistical data, the following reflects the number of banks and branches in existence in the 10th Congressional District of Virginia on the dates shown:

	Number of Banks			Number of Branches		
	Nat.	SM	Ins.NM	Nat.	SM	Ins.NM
12-31-56	5	1	8	8	1	11
12-31-61	6	1	9	18	3	22
12-31-62	9	1	8	29	4	22
5-31-63	9	1	8	32	4	23

Included in the above figures are de novo branches, which were established as follows:

	National	State Member	Insured Nonmember
1-1-57 to 12-31-61	8	2	8
1962	5	1	6
1-1-63 to 5-31-63	3	0	1

In a letter dated June 19, 1963, the Deputy Commissioner of Banking of the State of Virginia advised the Federal Reserve Bank of Richmond that the following number of applications for State banks and branches in the 10th Congressional District were filed with and processed by the Corporation Commission during the periods shown below:

	Number		Approved		Disapproved		Withdrawn	
	Bks.	Br.	Bks.	Br.	Bks.	Br.	Bks.	Br.
1-1-57 to 12-31-61	3	30	1	19	2	6	-	5
1962	1	2	-	2	-	-	1	-
1-1-63 to 6-19-63	1	2	1	2	-	-	-	-
Totals	5	34	2	23	2	6	1	5

None of the applications for new charters involved the establishment of a bank that was simultaneously applying for membership in the Federal Reserve System. Included are 5 applications for branches of the Vienna Trust Company, Vienna, Virginia, the only State member bank in the 10th Congressional District. One of the 5 applications, filed in 1961, was set for a hearing by the Corporation Commission,but it was withdrawn before the hearing because of opposition by The National Bank of Fairfax and the Potomac Bank & Trust Company, Fairfax, Virginia. Consequently, that application was not presented to the Board for action. The other 4 applications of Vienna Trust Company, 1 filed in 1960, 2 in 1961, and 1 in 1962, were approved by the Corporation Commission without hearing, and they were presented to and approved by the Board during the years in which filed. (All of the 4 branches opened for business; however,

1 of the applications involved the head office of Vienna Trust Company, which was moved to another of the approved branches after it opened.) It is understood that the remaining 34 applications, 5 for new banks and 29 for branches, relate to insured nonmember institutions.

I trust this information will be helpful.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

cc - Comptroller of the Currency
Federal Deposit Insurance Corporation

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

Item No. 3
7/10/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 10, 1963.

Mr. Phillip S. Hughes,
Assistant Director for
Legislative Reference,
Bureau of the Budget,
Washington 25, D. C.

Dear Mr. Hughes:

This is in response to your request of June 14, 1963, for the views of the Board on a bill proposed by the Treasury Department "To amend section 5200 of the Revised Statutes, as amended (12 U.S.C. 84), to increase the limit on the maximum liability of a single borrower to a national bank."

The Board does not recommend the proposed amendment, which would permit national banks to make loans to single borrowers of twice the size now permitted. There has been no basic change in banking conditions in recent years that would justify such a liberalization of the law, nor are we aware of any wide-spread inability on the part of national banks to serve the credit needs of their customers. Since one of the major causes of bank failures in the past has been difficulties experienced with large loans, the Board urges that the present limitation be continued.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

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

Item No. 4
7/10/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 10, 1963

Mr. Clifford Tweter, President,
United California Bank,
600 South Spring Street,
Los Angeles 54, California.

Dear Mr. Tweter:

Your letter of June 26, 1963, sets out a plan to increase the capital structure of United California Bank. Under the proposed plan there would be a total addition to capital funds of $50 million, consisting of new common stock to be sold for cash in the amount of $25 million and capital debentures to be sold for $25 million. None of the debentures would be sold to present stockholders, but Western Bancorporation, which now holds 84 per cent of the outstanding common stock of United California Bank, would subscribe for its pro rata part of the proposed increase in capital stock and would also purchase any shares not subscribed for by minority stockholders. The plan for this capital addition has not as yet been approved by the board of directors or stockholders of your bank.

Previously, the Board of Governors had suggested to United California Bank that consideration should be given to an augmentation of capital funds because of a reduction in capital adequacy. Following a study of the matter referred to in your letter of June 26, the plan described above was developed as a means of strengthening the capital position.

The plan to furnish $50 million in new capital presented in your letter was discussed by you and representatives of the Board's Division of Examinations, including the Director of the Division, Mr. Frederic Solomon, when you recently visited the Board's offices. At that time the Board's staff suggested that more capital than the amount proposed would be desirable to meet capital needs reflected in the figures under discussion and to provide for needs arising since the dates of those figures and in the future. There also was discussion of the Board's generally unfavorable attitude, stated in its letter of April 1, 1963, toward the use of debentures as a means of providing bank capital.

Subsequently, you discussed further with Mr. Solomon by telephone the amount of new capital funds to be furnished, and you have now concluded that this amount would be increased to $60 million, the additional $10 million however to be supplied through the sale of debentures.

Under the terms of the altered proposal, new common stock would be issued in the amount of $25 million and debentures would be issued in the amount of $35 million. Under this arrangement, the total of debentures would be equivalent to about 13 per cent of the bank's total capital structure, including reserves, after the addition of the new capital. You also indicated that you would again thoroughly review the capital position of the bank within not more than one year, particularly in view of possible changes in the situation since the dates of the figures that have formed the basis for most of the discussions.

Although the Board continues of the view that capital debentures are not as desirable a means of capital expansion as common stock, the Board recognizes that capital funds derived from debentures do provide protection for depositors and that the proposed proportion of debentures to total anticipated capital structure would be relatively moderate.

The Board appreciates receiving the information about your proposed plans, as well as the careful consideration you have given this subject. Please advise it when the new capital has been provided.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 5
7/10/63

OFFICE OF THE CHAIRMAN

July 10, 1963.

The Honorable William L. Cary, Chairman,
Securities and Exchange Commission,
Washington 25, D. C.

Dear Bill:

After examining the draft of your Special Study's chapter on security credit, it seems to me that the procedure suggested in your letter of June 21 is entirely appropriate. Since the conclusions and recommendations of the Study group will not purport to speak for the Board, I see no necessity for a formal meeting prior to the release of that Study and the Commission's recommendations with respect to it. Our staff has a few further technical suggestions on the draft, which your staff may wish to consider on their merits.

By and large, it seems to us that the Study is an excellent and informative one, and the Board will certainly wish to give very serious consideration to its recommendations.

Sincerely yours,

(Signed) Bill

Wm. McC. Martin, Jr.