609
v. 9/61

Minutes for July 26, 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 M

Gov. Mills

Gov. Robertson R

Gov. Balderston CCB

Gov. Shepardson

Gov. King

Gov. Mitchell

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

Minutes of the Board of Governors of the Federal Reserve System on Friday, July 26, 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. Sherman, Secretary
Mr. Young, Adviser to the Board and Director, Division of International Finance
Mr. Fauver, Assistant to the Board
Mrs. Semia, Technical Assistant, Office of the Secretary

Messrs. Noyes, Koch, Holland, Eckert, Keir, and Yager of the Division of Research and Statistics

Messrs. Furth, Hersey, Sammons, Gemmill, and Goldstein of the Division of International Finance

Money market review. Mr. Keir commented on developments in Government finance, the Federal Funds market, and the level of net free reserves, illustrating the information presented by distributing tables showing the structure of Treasury bill yields and the evolution of reserve projections during the statement week ending July 24, 1963, and a chart showing maturity yields on United States Government securities from May 1960 to July 1963. Mr. Eckert spoke on bank credit, bank reserves, and currency in circulation, furnishing the Board copies of a summary of monetary developments in the five weeks ending July 24, charts on currency outside banks and per capital holdings of currency and personal consumption

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

expenditures, and tables showing net changes in currency in circulation, by denomination, 1952-1963, and Federal Reserve notes outstanding, by District.

Mr. Goldstein then discussed foreign exchange markets, Mr. Holland commented on prospective open market operations, and Mr. Koch made observations as to the relationship between discount rates and credit availability.

All members of the staff except Messrs. Sherman and Fauver and Mrs. Semia then withdrew and the following entered the room:

Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Hexter, Assistant General Counsel
Mr. Benner, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Thompson, Assistant Director, Division of Examinations
Miss Hart, Senior Attorney, Legal Division
Mr. Hricko, Senior Attorney, Legal Division
Mr. Egertson, Review Examiner, Division of Examinations
Mr. Rumbarger, Review Examiner, Division of Examinations
Mr. Sanford, Review Examiner, Division of Examinations
Mr. Smith, Review Examiner, Division of Examinations
Mr. Noory, Assistant Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Cleveland, Richmond, St. Louis, Minneapolis, and Dallas on July 25, 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.

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

Circulated 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 Mound City Trust Company, St. Louis, Missouri, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.	1
Letter to The Chase Manhattan Bank, New York, New York, approving the establishment of a branch at 486 Neptune Avenue, Brooklyn.	2
Letter to Manufacturers Hanover Trust Company, New York, New York, approving the establishment of a branch at 510 Third Avenue, Borough of Manhattan.	3
Letter to Union County Trust Company, Elizabeth, New Jersey, approving the establishment of a branch at Rahway Avenue and South Street.	4
Letter to United California Bank, Los Angeles, California, approving the establishment of a branch in Redondo Beach.	5
Letter to the Federal Reserve Bank of New York interposing no objection to the retention of Robert G. Rouse in active service for the period October 1, 1963, through September 30, 1964, and approving the payment of salary to Mr. Rouse as Vice President and Senior Adviser at the rate fixed by the Bank's Board of Directors for the period October 1 through December 31, 1963.	6
Letter to the Federal Reserve Bank of New York approving the payment of salary to three officers at rates fixed by the Bank's Board of Directors.	7

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

Item No.

Letter to Mercantile Trust Company, St. Louis, Missouri, reiterating the Board's interest in learning of steps contemplated in order to bring the Trust Company's operations into conformity with the position taken by the Board in its letter of June 20, 1963. 8

Applications of Virginia Commonwealth Corporation. There had been distributed two memoranda dated July 19, 1963, from the Division of Examinations in connection with applications by Virginia Commonwealth Corporation, Richmond, Virginia. In one application, Virginia Commonwealth sought to acquire shares of Washington Trust and Savings Bank, Bristol, Virginia, and in the other, to acquire shares of The Peoples National Bank of Pulaski, Pulaski, Virginia. In each case, the Federal Reserve Bank of Richmond and the Division of Examinations recommended approval.

There had also been distributed a memorandum dated July 19, 1963, from the Division of Examinations regarding the capital needs of the subsidiaries of Virginia Commonwealth Corporation, this study having been made pursuant to the Board's request at the meeting on May 20, 1963. Since the study was started, The Bank of Henrico, Sandston, Virginia, had merged with The Bank of Virginia, Richmond, Virginia, thereby reducing the number of Virginia Commonwealth's subsidiaries to four. Of those four, Bank of Virginia was the one that presented the only problem of consequence regarding capital needs.

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

After comments on the capital position of the other three subsidiaries, it was stated in the memorandum that Bank of Virginia needed close to $3.9 million of additional capital to equal 80 per cent of requirements according to the Board's analysis form; $4.9 million to equal 85 per cent; $5.9 million to equal 90 per cent; $7 million to equal 95 per cent; and $8 million to equal 100 per cent.

The primary causes of Bank of Virginia's low capital position were relatively low net earnings and a rapid rate of growth in deposits. It seemed apparent that deposits would continue to grow. While efforts to improve earnings were said to be under way, it seemed probable that any improvement in earnings in relation to growth of the bank would be slow.

The bank had sought increased earnings at the expense of its current capital position and liquidity. Its policy had been to keep fully invested and to make active use of the money market. It had a lower-than-average proportion of cash assets and U. S. Government securities and a higher-than-average proportion of loans to total assets. Also, the bank utilized borrowed funds for a substantial number of days, and the reports of examination for 1962 and 1963 indicated a trend toward longer maturities in the investment portfolio.

Bank of Virginia had been successful in keeping its total operating earnings at a high level; however, up to the present time it had had little success in reducing current expenses in relation to gross income. While a sizable portion of expenses was represented by interest payments on a

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

higher-than-average percentage of time deposits, expenses were also high in other categories. One reason indicated for the high expenses was the maintenance of its branch system. While real estate assets were higher than average in proportion to total assets, this proportion had been reduced over the past five years. It was also noted that the bank's occupancy expense, which was also higher than average, declined in relation to total earnings in 1962; however, it was doubted that this reduction would have a profound effect on the earnings picture.

Unless Bank of Virginia could find some means of substantially reducing expenses in relation to total income, it would appear that periodic augmentation of capital (in addition to retained earnings) would be the only available means of maintaining an adequate capital relationship. The bank at present planned to issue $1.5 million of additional capital stock by September 1, 1963, and it was contemplated that Virginia Commonwealth would acquire its proportionate share, or all, of the additional shares.

Numerous comparisons of the capital and earnings of Bank of Virginia with the capital and earnings of other banks and groups of banks were set out in the memorandum, as well as comments on dividend policy and borrowing of Virginia Commonwealth's subsidiaries and analyses of the communities they served. The conclusion of the Division, as far as Bank of Virginia was concerned, was that, although it was probable that a request for $4 million of additional capital (including the $1.5 million to be added) would be vigorously opposed by the bank and the

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

holding company, the addition of that amount would not be unreasonable. Capital adequacy according to the Board's analysis form had become progressively weaker at each of the last three examinations and, based on past operations, the bank's earnings were considerably less than those for the average Fifth District member bank in its size group. Based on the most recent examination, the additional $4 million would provide only slightly in excess of 80 per cent of the amount called for by the Board's analysis form.

At the Board's invitation, Mr. Solomon commented in supplementation of the Division's capital adequacy memorandum. Despite the serious capital problem of Bank of Virginia, he did not believe there was justification for turning down either of the two current applications by Virginia Commonwealth; those acquisitions would not worsen the capital situation of Bank of Virginia and would, in fact, slightly strengthen that of the holding company. The capital of Bank of Virginia was inadequate by any test that could be applied; the only question was how much additional capital was needed, and there was not too much variation in the findings on that point. The analysis of the Federal Reserve Bank of Richmond was essentially the same as that of the Division of Examinations. The principal reason for Bank of Virginia's low capital was its net earnings position, compared with other individual banks and groups of banks. Reduced to simplest terms, the bank had a management succession problem in reverse. It was so interested in growth and expansion that it maintained a staff of a size always ahead of its current needs. Thus, even

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

though the bank did not pay higher salaries than other banks, its personnel expenses, plus heavy rentals in bank premises, ate up an undue portion of its quite favorable gross earnings. This fact had been brought to the attention of the bank's management, who were trying to correct the problem, but without sufficient success thus far. The bank was very advanced in the use of automation, which might in time serve to reduce expenses to some extent. The Division suggested that, if the two current applications by Virginia Commonwealth were approved by the Board, the letters notifying the applicant of those decisions not only express the Board's dissatisfaction with the capital position of Bank of Virginia but also call attention to the bank's earnings and expense problem. The Division felt strongly that the bank should add to its capital not just \$1.5 million but as least \$4 million. The bank's management recognized the capital problem and was prepared to take corrective measures, although it seemed unlikely that they would be willing to add as much as \$4 million. Mr. Solomon expressed the view, however, that the Board should press for that amount. Virginia Commonwealth expected to borrow in order to purchase the \$1.5 million of additional capital that Bank of Virginia expected to issue. Obviously it would be better to obtain additional capital through other means, but it would be better to have the capital, even through borrowing, than not to have it.

Governor Shepardson observed that a situation that involved gradual capital deterioration and aggressive expansion raised a question

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

in his mind as to the point at which a line should be drawn on expansion until the situation improved.

Governor Robertson commented that he thought in terms of the future; in the light of the amount of capital needed by Bank of Virginia, it would be more difficult to obtain capital for the other subsidiaries of Virginia Commonwealth.

Governor Balderston expressed the view that the capital problem was more important than the two proposed acquisitions. He would press for the introduction of at least $4 million of additional capital, and he concurred in Mr. Solomon's suggestion that attention be called to the need for slowing down the building of Bank of Virginia's organization. Governor Balderston was in favor of saying that Bank of Virginia needed more capital promptly, without specifying how it should be obtained, and then referring to the fact that the bank had been preparing for growth at a rate that had affected its net operating figures adversely. He believed that the latter point should be stressed because he did not see how interest on borrowed funds could be serviced or satisfactory dividends paid unless the situation was remedied.

Governor Shepardson stated that he also regarded the capital problem as the major consideration. It seemed to him that with inadequate capital and low net earnings, it was necessary for the Board to step in before Bank of Virginia got in trouble. He was inclined to favor the approach suggested by Governor Balderston, being firm on the requirement of capital and some consolidation of activities.

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

Following comments by Mr. Thompson, the members of the Board then expressed their views in regard to the application of Virginia Commonwealth to acquire the majority of the shares of Washington Trust and Savings Bank, Bristol, Virginia.

Governor Mills stated that he would approve the application on the grounds cited by the Division of Examinations. He favored the Division's recommendation that, if the Board approved the application, the letter notifying the holding company of that decision include a stricture as to the need for increasing the capital of Bank of Virginia, but he would not make that a condition to the decision on the Bristol application. It would seem that since Bank of Virginia's gross earnings were relatively good and it was the bank's net return that presented difficulty, the bank's management could improve the situation by controlling expenses if they chose to make that effort, and they should be encouraged to do so. The Bristol application involved an area that was already served by several large banks, as well as two small ones, and the introduction of Virginia Commonwealth into the area presumably would provide increased competition with the large banks. Governor Mills could not be enthusiastic about the increasing holding company control over banking in Virginia, but the effect of the proposed Bristol transaction would not expand either the total holding company operations in Virginia or holdings of Virginia Commonwealth to a point that, in his thinking, would be adverse to the public interest or involve an over-concentration of assets under the control of Virginia Commonwealth.

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

Governor Mills gathered that the management of Virginia Commonwealth was reasonable, had recognized the fact that Bank of Virginia's capital must be improved, and had steps under way to that end, although their present plans still would not put the bank's capital in an adequate position. He judged that the two present applications had been presented without any previous affirmative action on the part of either the Board or the Federal Reserve Bank of Richmond to insist that additional capital be introduced into Bank of Virginia. If that was correct, it seemed to him that it would be difficult to decline either of the applications at this time on the grounds of Bank of Virginia's capital inadequacy.

Mr. Solomon commented that the question of capital had been raised with Bank of Virginia. Its officers had been told that the $1.5 million they proposed to add was a desirable step, but that further improvement was necessary.

Governor Robertson stated that he would disapprove on the ground that the major unit of the holding company's system had a serious capital problem. If the holding company were allowed to expand, the implication would be that its subsidiaries were adequately capitalized. Although they might not have troublesome capital problems today, except for Bank of Virginia, they might have in the future, and the difficulty being experienced by the holding company in obtaining capital for Bank of Virginia would make it harder to obtain capital for the other subsidiaries. Any capital to be provided Bank of Virginia in addition to the $1.5 million

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

that Virginia Commonwealth was borrowing would probably have to come from larger dividends assessed on the other subsidiaries by the holding company. He was in favor of halting the holding company's expansion at this point until it had brought its situation under control.

Chairman Martin asked if the Board had ever gone so far as to say that a current application would be approved but that no future applications would be viewed with favor in the absence of capital improvement. Staff responses cited one previous case in which an admonition along that line had been given. Chairman Martin then asked it there was any legal reason why the holding company should not be put on notice that the Board considered Bank of Virginia's capital inadequate and expected the situation to be improved promptly.

Mr. Hackley responded that he believed that from a legal standpoint it would be going a little far to say that no further expansion would be approved unless more capital was obtained, because each case must be judged on its own merits and some future case might involve circumstances that would point to its approval in the public interest. Ensuing comment suggested that the admonition could be phrased in such a way as to make allowance for the point made by Mr. Hackley.

Governor Shepardson stated that he would be inclined to approve the Bristol application, hoping that an admonition regarding capital could be given that would be strong enough to be fruitful.

Governor Balderston said that his view was favorable, for the reasons set forth by Governor Mills. Governor Balderston reiterated

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

his recommendation that the Board press for improved efficiency as well as for more capital. He noted that neither of the proposed acquisitions would injure the capital position of the banks or the holding company.

Chairman Martin stated that he also would vote to approve. He felt, however, that a strong admonition on the capital problem should be given.

The application of Virginia Commonwealth Corporation to acquire shares of Washington Trust and Savings Bank, Bristol, Virginia, was thereupon approved, Governor Robertson dissenting. Governor Robertson stated, however, that he would like to reserve the right to withdraw his dissent, depending upon his view with regard to the terms of the admonition that was to be given the holding company.

It was understood that the Legal Division would draft for the Board's consideration an order and statement reflecting the decision to approve and that, if Governor Robertson should decide to let his dissent stand, a statement explaining that dissent would also be prepared.

At the invitation of the Board, Mr. Thompson then summarized the application of Virginia Commonwealth to acquire shares of The Peoples National Bank of Pulaski, Pulaski, Virginia, following which the members of the Board expressed their views.

Governor Mills stated that he would approve for the reasons given by the Division of Examinations and against the background of the broader discussion of the holding company's situation.

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

Governor Robertson stated that he would approve this application as an exceptional case.

Governors Shepardson and Balderston and Chairman Martin having also indicated favorable positions, the application was approved unanimously. It was understood that the Legal Division would draft an appropriate order and statement for the Board's consideration reflecting this decision, and that Governor Robertson might wish to issue a concurring statement.

Messrs. Benner, Thompson, Rumbarger, Sanford, Smith, and Noory then withdrew from the meeting.

Application of Fifth Third Union Trust Company. There had been distributed a memorandum dated July 22, 1963, from the Division of Examinations relating to the application of The Fifth Third Union Trust Company, Cincinnati, Ohio, to purchase the assets and assume the liabilities of The Citizens Bank of St. Bernard, Saint Bernard, Ohio. The memorandum analyzed the application, with special reference to the factors cited for consideration by the Bank Merger Act, and pointed out similarities between this application and that of Fifth Third Union Trust Company to acquire The Norwood-Hyde Park Bank and Trust Company, Norwood, Ohio, which the Board approved by order dated December 22, 1961.

The Division of Examinations recommended that the present application be approved. Fifth Third Union Trust Company would gain through this acquisition about .8 per cent of the area's deposits of individuals,

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

partnerships, and corporations, increasing its portion to about 27.5 per cent. However, when considered in conjunction with other factors, this slight increase did not appear to be of sufficient significance to warrant denial. The relatively small Citizens Bank had apparently served Saint Bernard reasonably well while the community was primarily residential. However, the area now was experiencing a substantial degree of industrial expansion. While Citizens Bank could no doubt prosper for a few more years, it did not have the resources to meet the needs of the commercial and industrial concerns moving into the area. Consequently, its future progress and ability to serve the area were questionable. The existing and potential competition that would be eliminated by the transaction was not believed to be a substantial element in the banking structure of Cincinnati. For these reasons, and the fact that a management succession problem would be solved, the Division felt that approval would be in the public interest.

At the Board's invitation, Mr. Leavitt spoke in supplementation of the Division's memorandum of July 22. He noted, among other things, that the initial overtures for the merger apparently were made by the officers of Citizens Bank, who wished to liquidate their banking interests and felt that it would be increasingly difficult for the bank to operate profitably. Therefore they wished to dispose of the bank now. Important in the Division's thinking, and probably the circumstance that tipped the scales, was the changing nature of the Saint Bernard area. With

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

increasing industrialization, the businesses in the area might make less and less use of Citizens Bank as they increasingly required broader services normally available from larger banks.

Governor Robertson referred to a letter, copies of which had been distributed, that had been written on July 10, 1963, to the Attorney General by a Vice President of the National Federation of Independent Business. The letter referred to the Fifth Third-Citizens Bank merger (which the writer of the letter apparently thought had already been consummated) and stated that "the majority of the stockholders opposed the sale"; also that "businessmen in the St. Bernard area are up in arms over the fact that local banks would have bid more for available stock than was paid by Fifth Third, if the bank had been offered to the highest bidder."

Governor Mills observed that the letter did not come from a stockholder of either of the banks involved in the application. Stockholders who objected could, if they desired, go to court to obtain relief. He could not regard the letter as being germane to the decision the Board must make regarding the application.

Governor Shepardson, referring to the statement in the letter to the effect that businessmen were up in arms because the bank had not been offered to purchasers who would have bid more, asked what banks there were that would have bid more.

Mr. Solomon replied that that was one of several apparent contradictions in the letter; the price at which the bank was sold would

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

be of no concern to businessmen. He pointed out further that the resolution for the merger was adopted by more than the required vote of two-thirds of the outstanding shares of Citizens Bank.

The members of the Board then expressed their views regarding the application, beginning with Governor Mills, who stated that he would concur in the Division's recommendation. The statutory factors required for consideration pretty much cancelled themselves out and left a neutral case, and as a neutral case it would be difficult to upset the expressed wishes of the parties to the proposal. As Mr. Leavitt had explained, the case bore comparison to the Norwood-Hyde Park case. It was also somewhat similar to an application of United California Bank, Los Angeles, California, approved by the Board some time ago, where a bank was buried in a metropolitan community, was surrounded by the facilities of much larger banks, and had a management problem. The Board had approved that case as being in conformance with the wishes of the parties to the transaction, and in the light of a situation involving a segment of a much larger community rather than extension into a distant area.

Governor Robertson stated that he would disapprove on the ground that he found no positive factors other than the wishes of the parties. On the adverse side, one alternative source of banking services would be eliminated and Fifth Third Union Trust already had branches in the Saint Bernard area.

Governor Shepardson stated that he agreed with Governor Mills. It seemed to him that the statutory factors were offsetting. There was

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

not much to be gained, neither would there be much loss of competition. Many alternative banking services were available in the area. He was impressed with the changing nature of the community. While Citizens Bank might be reasonably prosperous at this time, its prospects were not particularly encouraging. He could see why the management of the bank might want to sell now while the bank was in good shape rather than after it had gone through a period of attrition. He felt that the wishes of the owners deserved consideration.

Governor Balderston said that he would approve. He felt that the Division had made a valid point as to the changing nature of the community. While he disliked to see an independent bank lost to the community, he did not see why the owners must be made to continue in business.

Chairman Martin indicated that while it was a close case, he would vote to approve.

The application of Fifth Third Union Trust Company was thereupon approved, Governor Robertson dissenting. It was understood that the Legal Division would draft an appropriate order and statement for the Board's consideration reflecting this decision, and that a dissenting statement by Governor Robertson also would be prepared.

Mr. Hricko then withdrew from the meeting.

Application of Bankers Trust Company (Items 9, 10, and 11). There had been distributed for the Board's consideration drafts of an order and

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

statement reflecting the Board's approval on July 23, 1963, of the application of Bankers Trust Company, New York, New York, to acquire the assets and assume the liabilities of The First National Bank of Farmingdale, Farmingdale, New York. A dissenting statement by Governor Robertson had also been distributed.

After discussion, the issuance of the order and statement was authorized. Copies of these documents, as issued, are attached as Items 9 and 10. The dissenting statement by Governor Robertson is attached as Item No. 11.

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 Boston (attached Item No. 12) approving the appointment of Frank Michael Hillery as examiner.

Memorandum from Mr. Hackley, General Counsel, recommending that the Board authorize the holding of a Conference of Federal Reserve Bank Counsel on October 10 and 11, 1963, the program to include a dinner on the evening of October 10.

Memoranda from appropriate individuals concerned recommending the following actions relating to the Board's staff:

Salary increase

Richard S. Landry, Assistant to the Secretary, Office of the Secretary, from $9,790 to $11,150 per annum, effective August 4, 1963.

Transfers

Florence R. Cox, from the position of Secretary in the Division of Research and Statistics to the position of Secretary in the Board Members' Offices, with an increase in basic annual salary from $6,225 to $6,650, effective August 4, 1963.

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

Transfers (continued)

Jaclene Therese Masterson, from the position of Stenographer in the Legal Division to the position of Secretary in the Division of Research and Statistics, with an increase in basic annual salary from $4,390 to $4,725, effective August 12, 1963.

Leave without pay

Enid J. Halota, Secretary in the Office of the Secretary, for the period August 18 through August 30, 1963.

Acceptance of resignation

Sandra B. Malone, Stenographer, Legal Division, effective August 16, 1963.

Secretary

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

2472

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

Item No. 1
7/26/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 26, 1963

Board of Directors,
Mound City Trust Company,
St. Louis, Missouri.

Gentlemen:

The Federal Reserve Bank of St. Louis has forwarded to the Board of Governors President Chleboun's letter dated July 1, 1963, together with the accompanying resolution, signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six-months' notice of such withdrawal.

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

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

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

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

Item No. 2
7/26/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 26, 1963

Board of Directors,
The Chase Manhattan Bank,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Chase Manhattan Bank, New York, New York, of a branch at 486 Neptune Avenue, Brooklyn, New York, 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.)

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

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

Item No. 3
7/26/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 26, 1963

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

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch at 510 Third Avenue, Borough of Manhattan, New York, New York, by Manufacturers Hanover Trust Company, 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.)

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

Item No. 2475
7/26/63

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

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 26, 1963

Board of Directors,
Union County Trust Company,
Elizabeth, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch at the southwest corner of Rahway Avenue and South Street, Elizabeth, New Jersey, by Union County Trust Company, 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.)

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

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

Item No. 5
7/26/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 26, 1963

Board of Directors,
United California Bank,
Los Angeles, California.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch by United California Bank, Los Angeles, California, in the vicinity of Palos Verdes Boulevard and Pacific Coast Highway, Redondo Beach, California, provided the branch is established within six months 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.)

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

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

Item No. 6
7/26/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 26, 1963

CONFIDENTIAL (FR)

Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Hayes:

In view of the circumstances outlined in your letter of July 12, 1963, the Board of Governors interposes no objection to the retention of Mr. Robert G. Rouse in active service by the Federal Reserve Bank of New York for the period October 1, 1963 through September 30, 1964. The Board approves the payment of salary to Mr. Rouse as Vice President and Senior Adviser at the rate of $37,500 per annum, for the period October 1 through December 31, 1963.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

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

Item No. 7
7/26/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 26, 1963

CONFIDENTIAL (FR)

Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York 45, New York.

Dear Mr. Hayes:

The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of New York for the period of July 1 through December 31, 1963, at the rates indicated, which are the rates fixed by your Board of Directors as reported in your letter of June 28:

Name	Title	Annual Salary
William H. Braun, Jr.	Assistant Vice President	$21,000
Frank W. Schiff	Assistant Vice President	19,000

The Board also approves the payment of salary at the rate of $15,500 per annum to Bruce K. MacLaury as an officer to the Bank, with the title of Manager, effective July 11 through December 31, 1963.

The Board has noted the reference in your letter regarding the reassignment of Francis H. Schott, Manager, and the forthcoming extended absence of Robert Lindsay, Senior Economist.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

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

Item No. 8
7/26/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 26, 1963.

Mr. Kenton R. Cravens,
Chairman of the Board,
Mercantile Trust Company,
St. Louis 66, Missouri.

Dear Mr. Cravens:

Thank you for your letter of July 12, enclosing a picture copy of the affidavit which Mississippi Valley Company filed with the Secretary of State of Missouri on or about June 14, 1963, in compliance with a requirement of the Missouri statutes.

In your letter of June 21, 1963, you stated that Mercantile Trust Company was accelerating its review of operations in the light of the Board's position with respect to the application to this situation of section 9 of the Federal Reserve Act and section 5155 of the Revised Statutes, relating to branch operations, discussed in the Board's letter to you dated June 20. You expressed the hope that the Bank would be in a position to advise the Board further, with respect to this matter, before the end of June.

In the circumstances, the Board requests that it be informed soon regarding the steps that have been taken in this connection and the additional steps that are planned, with an indication of the approximate schedule.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

Item No. 9
7/26/63

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of

BANKERS TRUST COMPANY

for approval of acquisition of assets of
The First National Bank of Farmingdale

ORDER APPROVING ACQUISITION OF BANK'S ASSETS

There has come before the Board of Governors, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), an application by Bankers Trust Company, New York, New York, a member bank of the Federal Reserve System, for the Board's prior approval of its acquisition of the assets and assumption of the deposit liabilities of The First National Bank of Farmingdale, Farmingdale, New York, and, as an incident thereto, Bankers Trust Company has applied, under section 9 of the Federal Reserve Act, for the Board's prior approval of the establishment by that bank of a branch at the present location of The First National Bank of Farmingdale. Notice of the proposed acquisition of assets and assumption of deposit liabilities, in form approved by the Board of Governors, has been published pursuant to said Bank Merger Act.

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

Upon consideration of all relevant material in the light of the factors set forth in said Act, including those reports on competitive factors furnished under the provisions of the Bank Merger Act of 1960.

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said applications be and hereby are approved, provided that said acquisition of assets and assumption of deposit liabilities and establishment of a branch shall not be consummated (a) within seven calendar days after the date of this Order, or (b) later than three months after said date.

Dated at Washington, D. C., this 26th day of July, 1963.

By order of the Board of Governors.

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

Voting against this action: Governor Robertson.

Absent and not voting: Governors King and Mitchell.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

Item No. 10
7/26/63

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

APPLICATION BY BANKERS TRUST COMPANY
FOR APPROVAL OF ACQUISITION OF ASSETS OF
THE FIRST NATIONAL BANK OF FARMINGDALE

STATEMENT

Bankers Trust Company, New York, New York ("Bankers"), with deposits of $3,303 million*, has applied, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), for the Board's prior approval of its acquisition of the assets and assumption of the deposit liabilities of The First National Bank of Farmingdale, Farmingdale, New York ("First Farmingdale"), with deposits of $33 million*. Incident to the application, Bankers has also applied under section 9 of the Federal Reserve Act for the Board's prior approval of the establishment of a branch at the location of the office of First Farmingdale, increasing the number of Bankers' presently operating domestic offices from 55 to 56, and providing its first office in the suburban area which includes Nassau County.

Under the law, the Board is required to consider, as to each of the banks involved, (1) its financial history and condition, (2) the adequacy of its capital structure, (3) its future earnings prospects,

* Deposit figures are as of December 28, 1962. Deposit figures for Bankers exclude its London, England branches.

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

(4) the general character of its management, (5) whether its corporate powers are consistent with the purposes of 12 U.S.C., Ch. 16 (the Federal Deposit Insurance Act), (6) the convenience and needs of the community to be served, and (7) the effect of the transaction on competition (including any tendency toward monopoly). The Board may not approve the transaction unless, after considering all these factors, it finds the transaction to be in the public interest.

Banking factors. - Both Bankers and First Farmingdale have satisfactory financial histories. The financial condition of First Farmingdale is sound, and its capital structure is adequate. Earnings have been good. However, deposits have grown at a rate markedly less than that of its competitors. During the past ten years, for example, deposits of the other banking facility located in Farmingdale proper have increased two and a half times as much as those of First Farmingdale. Although all of its competitors operate branch facilities, no effort has been made to expand into branch locations. Lending policies have been unaggressive. A potentially serious management situation has developed as a result of the bank's failure to secure and train a successor to the president of the bank, who although vigorous and capable, is now in his seventy-eighth year.

At the end of 1962, Bankers was the ninth largest bank in the United States and the sixth in New York City. With a sound financial condition, favorable earnings prospects, adequate capital structure, and competent management, it would be affected only slightly if at all in these respects by consummation of the proposed acquisition.

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

Nothing indicates that the corporate powers of the banks now are, or after the proposed transaction would be, inconsistent with 12 U.S.C., Ch. 16.

Convenience and needs of the communities. - The proposed acquisition will have no discernible effect on the convenience and needs of New York City.

First Farmingdale serves an area which includes the incorporated village of Farmingdale proper, located in the county of Nassau on the Nassau-Suffolk county line, and the surrounding unincorporated areas of Bethpage, Old Bethpage, Plainedge, parts of North Massepequa and Plainview, South Farmingdale, East Farmingdale, and the southern part of Melville. The population of the area served by the bank has been increasing rapidly, in line with recent growth in the two counties, and is probably well above 65,000. There are some 24 fairly large industrial concerns in the area, including a plant of the Grumman Aircraft Engineering Corporation in Bethpage, and of the Republic Aviation Corporation in East Farmingdale. About 32,600 persons are employed in the area.

A good deal of vacant land properly zoned and suitably located remains available for both industrial and residential development, so that continued growth can be anticipated over a period of some years to come, even though Farmingdale proper has been fairly well built up. Retail trade in the area has undergone a drastic transformation from small stores and service shops located along the main streets of the

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

communities to modern shopping centers located in outlying sections. There are now three medium-sized shopping centers in the area, and a fourth is under construction.

The ordinary loan limit of First Farmingdale is $186,000 (ten per cent of its capital and surplus), a factor which restricts its lending activities, in effect, to residential mortgages and consumer loans, and in the business and commercial field, to smaller loans or participations in larger ones. Even in these categories, the activities of the bank have been limited. It does not offer such services as field warehousing, floor planning, and accounts receivable loans, nor does it attempt to originate larger construction loans for participation with its correspondent banks. Consumer instalment paper represents only 6.5 per cent of its loan portfolio, and its rates appear to be somewhat higher than those of its local competitors. It makes no instalment loans on appliances, nor does it purchase automobile dealer paper. While it has been granted trust powers, it does not seek to exercise them. A full range of banking services is available in the area from local offices of six banks, ranging in size from the Long Island National Bank, of Hicksville, with deposits of about $74 million, to First National City Bank, of New York, with deposits of about $7,331 million. However, approval of the application will replace one of the only two banking offices located in Farmingdale proper, which holds 31 per cent of all deposits in banking offices in the service area,* with an office of a bank equipped to provide facilities suited to the growth which can be foreseen, both immediately and in the long run.

* The area from which First Farmingdale draws 75 per cent of its deposits.

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

Competition. - Bankers' nearest office to First Farmingdale is located 19.2 miles to the northwest in the Little Neck section of Queens County. Both Grumman Aircraft and Republic Aviation have substantial loans and deposit accounts with Bankers, but these accounts are of a size far beyond the range of First Farmingdale, and both firms maintain payroll accounts with the latter bank. About 30 customers had accounts at both banks, and the rather minimal amount of business of Bankers other than the two accounts mentioned which originates in the Farmingdale area, as well as of First Farmingdale which originates in New York City, appears to be due to commuters who prefer to bank near their place of business rather than near their homes. Indeed, very little real competition, either present or potential, can be said to exist between the two banks.

In the Farmingdale area, the acquisition can be expected to quicken existing competition. First Farmingdale, while well entrenched, has been a somewhat passive competitor. The remaining banks with offices in the service area, the smallest of which is more than twice its size, can well withstand the onslaught of more vigorous competition. And the "service area" concept itself may be misleading in a well settled portion of suburbia of the sort involved here. The mobility of the typical resident, as well as the fact that similar shopping facilities are offered every few miles, tends to place banking offices in competition with one another over a somewhat wider range than would be the case in a city or in a sparsely settled

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

region. As a result, the substitution of an office of Bankers for First Farmingdale may stimulate competition well beyond the boundaries within which the latter has functioned heretofore.

Nor is it believed that the acquisition will give Bankers a commanding position in the community. While the immediate result will be to place the new office of Bankers in possession of 31 per cent of the deposits of offices in the "service area" so-called, those depositors who have remained with First Farmingdale out of loyalty or local pride will now feel free to move their accounts elsewhere. Moreover, the merger of the two banks will remove statutory "home office protection" from Farmingdale proper, so that additional bank branches may be established there.

Summary and conclusion. - The effect of approval of the proposed transaction on competition in the Farmingdale area will, if anything, be encouraging, and a serious management succession problem will be averted. Services in Farmingdale proper will be improved.

Accordingly, the Board finds that the proposed merger would be in the public interest.

July 26, 1963.

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

DISSENTING STATEMENT OF GOVERNOR ROBERTSON

I agree that in the present case little or no immediate competition will be lost as a result of the proposed merger. Certainly, if a merger is the proper solution for the management problem of First Farmingdale (as noted later, I do not think it is), then merger with a bank, even though a large one, that is not already operating in the area is much to be preferred to merger with one of the larger banks already competing there. However, the merger would terminate the existence of a sound and prosperous $33 million bank. The number of smaller banks in Nassau County has diminished markedly in recent years, as more and more are absorbed by the large Long Island banks and by the great metropolitan institutions of New York City as they extend their branch systems into the suburban counties.

There is no evidence in the record that substantial advantages to the public would result from replacing the independent Farmingdale bank with a branch of a large New York City bank. There is a steady tendency for banking in the suburban counties to the north and east of New York City to fall more and more into the hands of a relatively few giant institutions. If proposals like that now before the Board continue to receive its approval, it is difficult to see any logically defensible stopping point short of a situation in which the New York metropolitan area will be served almost solely by institutions that measure their resources in billions of dollars. In fact, we are steadily moving in that direction.

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

In my judgment, the public interest would be better served by the preservation of a broad range of banks of various sorts and sizes, each serving needs which it is peculiarly adapted to meet.

In some circumstances it might be prejudicial to a community if one of its banks were "conservative", "passive", "unaggressive" (descriptive words used in the majority decision), but in the relevant area of Nassau County there is an ample number of larger banks, all of them vigorously progressive, and the $33 million of deposits in First Farmingdale represents a substantial vote of preference for a quieter, more old-fashioned type of banking service. It is neither essential nor desirable that all banks be forever dashing aggressively to enter new fields, provide additional services, and increase their earnings. The absence of such an attitude is not, by itself, justification for the approval of a proposal to terminate the independent existence of an institution that has sought to walk rather than run in its quest for business. Some people prefer slower, more conservative progress.

Lastly, as far as management succession is concerned, a profitable bank with $33 million of resources should be able to obtain, and adequately compensate, new or additional executives, if and when a need exists. Approving an application to merge for this reason puts a premium on failure to provide management succession. Supervisory authorities should put a premium on the opposite course.

For these reasons, I would deny the application.

July 26, 1963.

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

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

Item No. 12
7/26/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

July 26, 1963

CONFIDENTIAL (FR)

Mr. Luther M. Hoyle, Jr.,
Vice President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Mr. Hoyle:

In accordance with the request contained in your letter of July 18, 1963, the Board approves the appointment of Frank Michael Hillery, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Boston. Please advise the salary rate and the effective date of the appointment.

It is noted that Mr. Hillery is indebted to City Bank and Trust Company, Boston, Massachusetts, a nonmember bank. It is understood, of course, that he will not participate in any examination of that bank until his indebtedness has been liquidated.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis