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Minutes for July 29, 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.

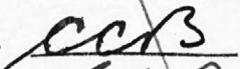
Chm. Martin



Gov. Mills

Gov. Robertson

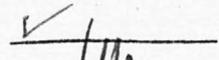
Gov. Balderston



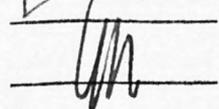
Gov. Shepardson



Gov. King



Gov. Mitchell



Minutes of the Board of Governors of the Federal Reserve System on Monday, July 29, 1963. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman  
Mr. Mills  
Mr. Robertson  
Mr. Shepardson

Mr. Kenyon, Assistant Secretary  
Miss Carmichael, Assistant Secretary  
Mr. Young, Adviser to the Board and Director,  
Division of International Finance  
Mr. Fauver, Assistant to the Board  
Mr. Landry, Assistant to the Secretary

Messrs. Noyes, Holland, Williams, Altmann,  
Freedman, Partee, Peret, and Wernick of  
the Division of Research and Statistics

Messrs. Hersey, Sammons, Katz, Irvine, Maroni,  
and Swerling and Miss Logue of the Division  
of International Finance

Economic review. The staff of the Division of International Finance commented on international financial and business developments, with special reference to their relationship to the United States balance of payments. The staff of the Division of Research and Statistics then presented information relating to the domestic economy.

After discussion based on these reports, all members of the staff except Messrs. Kenyon, Fauver, and Landry and Miss Carmichael withdrew from the meeting and the following entered the room:

Mr. Hackley, General Counsel  
Mr. Solomon, Director, Division of Examinations  
Mr. Shay, Assistant General Counsel  
Mr. Goodman, Assistant Director, Division of Examinations  
Mr. Leavitt, Assistant Director, Division of Examinations  
Mr. Hricko, Senior Attorney, Legal Division  
Mr. Hunter, Supervisory Review Examiner, Division of Examinations

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

	<u>Item No.</u>
Letter to Bankers International Financing Company, Inc., New York, New York, granting permission to purchase shares of Nigerian Acceptances Ltd., Lagos, Nigeria.	1
Letter to The Evans Corporation, Ault, Colorado, granting a determination exempting it from all holding company affiliate requirements except those contained in section 23A of the Federal Reserve Act.	2
Letter to Citizens State Bank of Albuquerque, Albuquerque, New Mexico, approving its application for membership in the Federal Reserve System.	3

Application of Hackensack Trust Company (Item No. 4).

There had been circulated a memorandum from the Division of Examinations dated July 19, 1963, which recommended approval of an application by The Hackensack Trust Company, Hackensack, New Jersey, to establish a branch in Harrington Park, Bergen County, New Jersey. The proposed branch would involve an investment in fixed assets of about \$135,000, and the bank estimated that the branch would develop about \$5 million in new deposits over the first three years of operation.

The memorandum pointed out that the bank had been inadequately capitalized for several years and this matter had been called to the bank's attention by the Board, the Federal Reserve Bank of New York, and the New Jersey Department of Banking and Insurance. The bank's

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management had taken the position that the capital problem would eventually be corrected through earnings, and considerable progress had been made in improving the situation since 1959. During the past year, however, there had been some deterioration.

Attached to the memorandum was a draft of letter that would approve the establishment of the branch and express the Board's concern about the need for strengthening the bank's capital position.

In discussion, Governor Robertson stated that he would disapprove the application. Over a period of years there had been a substantial question regarding the bank's capital position, notwithstanding which the bank had continued to expand. In letters approving applications of Hackensack Trust Company to establish branches, the Board had in the past referred to the need for correcting the bank's capital situation. There had been some improvement but recently the bank's capital position had deteriorated. In his judgment no further expansion branchwise should be permitted until adequate capital was provided. In seeking to establish an additional branch, the bank was forced to come to the Board for approval, which provided an opportunity for the Board to take a definite stand on the capital problem in a situation in which the member bank had rebuffed supervisory pressure to augment its capital.

Governor Mills expressed agreement with Governor Robertson's views regarding the bank's capital record. However, if the application

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were denied, he would want to be sure that the Board was prepared to stand on the denial and not change its position. In considering branch applications, he noted that the Board took into account various factors. Here criticism was directed at the Hackensack bank's capital adequacy, but there seemed to be no question about the ability of management or the general quality of the bank's loans or investments. He questioned the wisdom of denying the branch application solely on the basis of the capital problem, which involved an element of judgment.

Governor Mills went on to say that on balance he would be inclined to approve the application, though with some reluctance. If the Board should receive a merger application from the bank, perhaps that would be a suitable stopping point. The proposed branch, however, would not add substantially to the burden on the bank's capital.

Governor Balderston referred to the application of County Trust Company, Tenafly, New Jersey, to establish a branch in the vicinity of the proposed Harrington Park branch of Hackensack Trust Company, which application had recently been approved by the Board. In view of approval of that application, he thought some question might well be raised if the Board denied the application of Hackensack Trust Company.

Governor Shepardson recalled that the Board had in the past approved branch applications of the Hackensack bank and had called attention to the need for improving its capital position. If there

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was real concern about the bank's capital, it seemed to him that the Board should bring some pressure to bear in order to improve that situation, and he believed that the most effective procedure might be to restrain further expansion of the bank. On the other hand, if the Board was not unduly concerned about the bank's capital position, he thought that the Board should not continue bringing this matter to the bank's attention. In his judgment it did not seem consistent to keep nagging a bank about its capital position and, at the same time, permit that bank to continue expanding.

In the course of the discussion, Mr. Leavitt observed that the Hackensack bank was well run, with close control over expenditures and a record of good earnings. There was admittedly a need for additional capital, but in recent years there had been a considerable retention of earnings. Referring to Mr. Leavitt's comments, Governor Shepardson asked whether there was not some element of conflict between the statements that the bank was well run and that it was short of capital. In response, Mr. Leavitt said that it seemed reasonable to expect that a well-run bank could operate safely with slightly less capital than a poorly-managed bank. In this case, however, it was his view that the bank's capital position was lower than desirable even for a well-run bank.

Governor Shepardson then reiterated his concern about continuing to irritate a bank by calling attention to its capital position and

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yet at the same time taking the position that the bank was well run and that there was no need to impose direct pressure to bring about a strengthening of capital. In his judgment the Board should take one position or the other; if the bank's capital position was inadequate, he considered it appropriate to exercise whatever sanction was available.

At the Board's request Mr. Leavitt read the portion of the draft of letter to the Hackensack bank that related to capital, following which Governor Balderston suggested an editorial change designed to give some recognition to the point raised by Governor Shepardson.

Governor Robertson commented that in approving the application the Board would be taking action that would further weaken the bank's capital position in view of the volume of business that the bank expected the branch to develop. In this connection, Governor Mills noted, however, that retention of earnings from the larger volume of business might provide an offset.

Governor Shepardson said that he agreed with the view expressed earlier by Governor Mills that in this instance the bank's capital deficiency perhaps was not a sufficient basis for denial of the application. Accordingly, he would approve the application with reluctance. He believed, however, that the Board needed to have a study made of the entire question of capital adequacy at banks in order to work out a more consistent approach to the problem.

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Accordingly, the letter to The Hackensack Trust Company, with the change in wording suggested by Governor Balderston, was approved, Governor Robertson dissenting. A copy of the letter is attached as Item No. 4.

During the foregoing discussion Mr. Landry withdrew from the meeting.

Report on competitive factors (Lynchburg-Rustburg, Virginia).

There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed merger of Campbell County Bank, Rustburg, Virginia, into The Lynchburg National Bank and Trust Company, Lynchburg, Virginia.

Following discussion during which certain changes in the conclusion were suggested and agreed upon, the report was approved unanimously for transmittal to the Comptroller of the Currency in a form in which the conclusion read as follows:

Consummation of the proposed merger would eliminate some present and potential competition between the two banks.

While consummation of the proposed merger would increase the ability of the Lynchburg National to compete with offices of the largest bank in the State and also with an affiliate of the largest bank holding company headquartered in the State, it would further concentrate area deposits in a bank which presently holds about one-fourth of bank deposits of the area. It would also expose First National Bank of Altavista to the direct competitive capabilities of a substantially larger bank.

Request for reconsideration of application by State Bank of Albany (Items 5 and 6). By order dated April 26, 1963, the Board

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denied an application of State Bank of Albany, Albany, New York, to merge with The Unadilla National Bank, Unadilla, New York. Subsequently, in letters to the New York Reserve Bank the two banks presented additional information with respect to the banking factors, the needs and convenience of the Unadilla area, and the competition in that area, and requested reconsideration by the Board of the merger application.

In a memorandum from the Division of Examinations and the Legal Division dated July 24, 1963, that had been distributed, the additional information furnished by the banks was analyzed and the conclusion reached that no significant information not previously presented in the case had been submitted and, therefore, there was no reason for reconsideration or oral presentation in reference to the Board's action in denying the application. Attached to the memorandum was a draft of letter that it was proposed to send to State Bank of Albany and to The Unadilla National Bank advising them along these lines. Also attached was a letter dated July 23, 1963, from Congressman Samuel S. Stratton in which he indicated an interest in the request of the two banks to have the merger application reconsidered by the Board and expressed the hope that representatives of the two banks would have an opportunity to be heard.

Governor Balderston noted that the Board's decision in April to deny the application had been unanimous with all members of the Board except Governor Mitchell present and voting. Today four members

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of the Board were present. Accordingly, there was a question as to whether the request for reconsideration should be taken up now or at a later date.

Governor Robertson suggested that, if the four members present today were unanimous in their decision, it would seem appropriate for the Board to act at this time. However, if those present were not unanimous, it would seem preferable to postpone action until additional Board members were present.

After further discussion of this point, general agreement was indicated with the position expressed by Governor Robertson.

Governor Mills then stated that the banks had introduced no additional data that would alter his adverse opinion of the application and Governor Robertson expressed agreement with this view.

Governor Shepardson referred to statements in the New York Reserve Bank's memorandum of July 5, 1963, analyzing the additional information furnished by the two banks. In that memorandum the Reserve Bank had indicated that the Unadilla bank was not in a position to meet all of the agricultural credit needs of the service area. While Governor Shepardson believed that the Board's decision not to permit State Bank of Albany to merge with Unadilla National Bank was a valid one, he wondered how the total credit needs of the Unadilla area could best be cared for. The Town of Unadilla was located in the Fourth Banking District of New York and was surrounded

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on two sides of a triangle by counties in the Seventh Banking District, and banks were prevented by New York statute from expanding across District lines.

In the discussion that followed it was brought out that there were reasonably accessible alternative banking facilities that could be expected to meet the larger credit needs of the Unadilla area.

After further discussion, the Board approved unanimously the letter to State Bank of Albany denying the request for reconsideration and the related request for oral presentation before the Board, with the understanding that an identical letter would be sent to The Unadilla National Bank. A copy of the letter to State Bank of Albany is attached as Item No. 5. It was understood that a copy of the letter would be sent to Congressman Stratton with an appropriate transmittal letter. A copy of the letter sent to Congressman Stratton pursuant to this action is attached as Item No. 6.

The meeting then adjourned.

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

Transfer

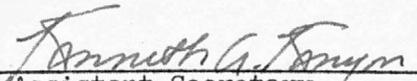
Catherine M. Cole, from the position of Clerk-Stenographer in the Division of Personnel Administration to the position of Stenographer in the Legal Division, with no change in basic annual salary at the rate of \$4,110, effective August 4, 1963.

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Outside activity

Robert L. Sammons, Adviser, Division of International Finance,  
to do research on international aspects of a national wealth inventory  
for George Washington University.

  
Assistant Secretary

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

Item No. 1  
7/29/63



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 29, 1963

Bankers International Financing Company, Inc.,  
16 Wall Street,  
New York 15, New York.

Gentlemen:

In accordance with your request and on the basis of the information furnished in your letter of May 27, 1963, transmitted through the Federal Reserve Bank of New York, the Board of Governors grants consent for Bankers International Financing Company, Inc., ("BIFC"), to purchase and hold 50,000 shares, par value Nigerian Pounds 1 each, of Nigerian Acceptances Ltd., Lagos, Nigeria ("NIAC"), at a cost of approximately US\$140,000, provided such stock is acquired within one year from the date of this letter.

The Board's consent is granted upon condition that BIFC shall dispose of its holdings of stock in NIAC, as promptly as practicable, in the event that NIAC 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 BIFC to be inappropriate under the provisions of Section 25(a) of the Federal Reserve Act or regulations thereunder.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

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

Item No. 2  
7/29/63



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 30, 1963

AIR MAIL

Mr. Claud Evans,  
Second Avenue and B Street,  
Ault, Colorado.

Dear Mr. Evans:

This refers to the request contained in a letter dated June 28, 1963, submitted to the Federal Reserve Bank of Kansas City by George C. Keely, Esquire, for a determination by the Board of Governors of the Federal Reserve System as to the status of The Evans Corporation as a holding company affiliate.

From the information presented, the Board understands that The Evans Corporation is engaged in the general insurance business as a partner in the firm of Hasbrouck & Neisler Insurance Agency, Ault, Colorado; that the Corporation is a holding company affiliate by reason of the fact that it owns 379 of the 750 outstanding shares of stock of The Farmers National Bank of Ault, Colorado; and that the Corporation does not, directly or indirectly, own or control any stock of, or manage or control, any other banking institution.

In view of these facts, the Board has determined that The Evans Corporation is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies within the meaning of section 2(c) of the Banking Act of 1933 (12 U.S.C. 221a); and, accordingly, the Corporation is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act, and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.

If, however, the facts should at any time indicate that The Evans Corporation might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make further determination of this matter at any time on the basis of the then existing facts. Particularly,

## BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. Claud Evans

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should future acquisitions by or activities of the Corporation result in its attaining a position whereby the Board may deem desirable a determination that the Corporation is engaged as a business in the holding of bank stock, or the managing or controlling of banks, the determination herein granted may be rescinded.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.

Item No. 3  
7/29/63

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

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD



July 29, 1963

Board of Directors,  
Citizens State Bank of Albuquerque,  
Albuquerque, New Mexico.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the application of Citizens State Bank of Albuquerque, Albuquerque, New Mexico, for stock in the Federal Reserve Bank of Kansas City, subject to the numbered conditions hereinafter set forth.

1. Such bank at all times shall conduct its business and exercise its powers with due regard to the safety of its depositors, and, except with the permission of the Board of Governors of the Federal Reserve System, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.
2. The net capital and surplus funds of such bank shall be adequate in relation to the character and condition of its assets and to its deposit liabilities and other corporate responsibilities.

In connection with the foregoing conditions of membership, particular attention is called to the provisions of the Board's Regulation H, regarding membership of State banking institutions in the Federal Reserve System, with especial reference to Section 208.7 thereof. A copy of the regulation is enclosed.

If at any time a change in or amendment to the bank's charter is made, the bank should advise the Federal Reserve Bank, furnishing copies of any documents involved, in order that it may be determined whether such change affects in any way the bank's status as a member of the Federal Reserve System.

Citizens State Bank of Albuquerque

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Acceptance of the conditions of membership contained in this letter should be evidenced by a resolution adopted by the board of directors and a certified copy of such resolution should be transmitted to the Federal Reserve Bank. Arrangements will thereupon be made to accept payment for an appropriate amount of Federal Reserve Bank stock, to accept the deposit of the required reserve balance, and to issue the appropriate amount of Federal Reserve Bank stock to the bank.

The time within which admission to membership in the Federal Reserve System in the manner described may be accomplished is limited to 30 days from the date of this letter, unless the bank applies to the Board and obtains an extension of time. When the Board is advised that all of the requirements have been complied with and that the appropriate amount of Federal Reserve Bank stock has been issued to the bank, the Board will forward to the bank a formal certificate of membership in the Federal Reserve System.

The Board of Governors sincerely hopes that you will find membership in the System beneficial and your relations with the Reserve Bank pleasant. The officers of the Federal Reserve Bank will be glad to assist you in establishing your relationships with the Federal Reserve System and at any time to discuss with representatives of your bank means for making the services of the System most useful to you.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

Enclosure

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

Item No. 4  
7/29/63

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 29, 1963.



Board of Directors,  
The Hackensack Trust Company,  
Hackensack, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Hackensack Trust Company, Hackensack, New Jersey, of a branch in Harrington Park, Bergen County, New Jersey, provided the branch is established within one year from the date of this letter.

On several occasions the supervisory authorities have called to your attention the need for strengthening the bank's capital position. The Board is aware of the progress you have made in improving capital during the past few years and, in view of the recent growth of the bank as indicated in your report of condition of March 18, 1963, the Board again expresses its concern for the need of further strengthening the bank's capital position.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

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

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

Item No. 5  
7/29/63



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

July 31, 1963

Mr. Hollis E. Harrington, President,  
State Bank of Albany,  
Albany, New York.

Dear Mr. Harrington:

This is in reference to your request for reconsideration by the Board of Governors of its Order dated April 26, 1963, denying the application for approval of the merger of Unadilla National Bank into the State Bank of Albany, and opportunity for oral presentation of facts and argument.

The information and views presented in support of the request for reconsideration and for oral presentation have been carefully considered. However, in the Board's judgment such information and views do not differ essentially from those contained in the original application by the State Bank of Albany for the Board's approval of the merger. It does not appear to the Board that there has been submitted to it significant information not previously presented in this case, and the Board has concluded that neither reconsideration nor oral presentation in reference to its prior action on this application would be appropriate.

Accordingly, the Board denies your requests.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,  
Assistant Secretary.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

Item No. 6  
7/29/63

OFFICE OF THE CHAIRMAN

July 31, 1963.

The Honorable Samuel S. Stratton,  
House of Representatives,  
Washington 25, D. C.

Dear Mr. Stratton:

Your letter of July 23, 1963, concerned the request which the Board had received for reconsideration of its Order dated April 26, 1963, denying the application for approval of the merger of Unadilla National Bank, Unadilla, New York, into the State Bank of Albany, Albany, New York.

Enclosed is a copy of a letter of this date addressed to the State Bank of Albany denying the request for reconsideration and the related request for opportunity for oral presentation before the Board. As the Board's letter indicates, the denial of these requests followed a review of all information available to the Board with respect to the matter. An identical letter is being sent to the Unadilla National Bank.

The point referred to in the second paragraph of your letter was among those considered by the Board pursuant to the criteria prescribed in the Bank Merger Act (12 U.S.C. 1828(c)) in accordance with which the merger application was received. In addition, the Board did not feel that opportunity to present the matter orally would serve a useful purpose in view of the comprehensive data and other materials received in connection with both the original application and the subsequent request for reconsideration.

Mr. Leavitt, of our staff, has already discussed this matter with a member of your staff.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure