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Minutes for August 19, 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, August 19, 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 1/

Mr. Kenyon, Assistant Secretary
Mr. Cardon, Legislative Counsel
Mr. Fauver, Assistant to the Board
Mr. Mattras, General Assistant, Office
of the Secretary

Messrs. Noyes, Brill, Garfield, Williams,
Altmann, Gehman, Keir, Partee, Swindler,
and Trueblood of the Division of Research
and Statistics

Messrs. Sammons, Gekker, Gemmill, Kaufman, Klein,
Maroni, and Nettles of the Division of
International Finance

Economic review. The Division of International Finance com-
mented on international financial conditions, with special reference
to the U. S. balance of payments, after which the Division of Research
and Statistics presented information relating to the domestic economy.

All members of the staff then withdrew except Messrs. Kenyon,
Fauver, Noyes, and Mattras and the following entered the room:

Mr. Hackley, General Counsel
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Goodman, Assistant Director, Division
of Examinations
Mr. Leavitt, Assistant Director, Division
of Examinations

1/ Entered meeting at point indicated in minutes.

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Miss Hart, Senior Attorney, Legal Division
 Mr. Young, Senior Attorney, Legal Division

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

	<u>Item No.</u>
Letters to United States Trust Company of New York, New York, New York, approving and reserving names for proposed foreign banking and financing corporations.	1-2
Letter to Bankers Trust Company, New York, New York, approving the establishment of a branch in Rockville Centre, Nassau County.	3
Letter to Clark State Bank, Clark, New Jersey, approving the establishment of a branch at Westfield Avenue and Lincoln Boulevard.	4
Letter to Provident Tradesmens Bank and Trust Company, Philadelphia, Pennsylvania, approving the establishment of a branch at Marshall and Carwithan Streets.	5
Letter to The Richland Trust Company, Mansfield, Ohio, regarding an investment in bank premises in excess of the bank's capital stock.	6
Letter to Peoples Bank & Trust Company, Montgomery, Alabama, approving the establishment of a branch in the Forest Hills Shopping Center on the Atlanta Highway.	7

In connection with Item No. 3, Mr. Leavitt noted that Franklin National Bank, Mineola, New York, had filed a suit in the Supreme Court for the State of New York to prevent Bankers Trust Company from establishing a branch in Rockville Centre pursuant to authorization obtained

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from the State banking authorities. Mr. Hackley expressed the opinion that the institution of the suit in no way blocked action on the branch application as far as the Board was concerned, and Mr. Leavitt stated that the Division of Examinations continued to recommend approval of the application.

Application of Wells Fargo Bank (Items 8 and 9). Pursuant to the decision reached at the meeting on August 8, 1963, there had been distributed a proposed order and statement reflecting the Board's approval of the application of Wells Fargo Bank, San Francisco, California, to merge with State Center Bank, Fresno, California.

After discussion, during which Governor Robertson noted that he had not participated in the decision on this matter, the issuance of the order and statement was authorized, with the understanding that the statement would be revised to reflect certain minor changes suggested at this meeting. Copies of the order and statement, as issued, are attached as Items 8 and 9.

Mr. Goodman and Miss Hart then withdrew from the meeting.

Eligibility for service as Class B director (Item No. 10).

There had been distributed a memorandum from the Legal Division dated August 13, 1963, submitting a draft of letter to all Federal Reserve Banks with regard to service of officers of insurance companies and savings and loan associations as Class B directors.

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Mr. Hackley, in commenting on the matter, noted that at the meeting on November 8, 1962, reference was made to a question that had been raised with regard to whether a person whose sole occupation was that of an officer of an insurance company was eligible to serve as a Class B director of the Federal Reserve Bank of San Francisco. In light of the circumstances of that particular case, the Board raised no objection. However, it reaffirmed a 1925 interpretation that a person whose sole occupation was that of an officer of an insurance company was not eligible for election as a Class B director.

In accordance with the understanding reached at the November 8, 1962, meeting, the staff had drafted the proposed letter to the Reserve Banks reaffirming the Board's position on this question and requesting that a sufficient statement be included in circular letters announcing forthcoming elections of directors to apprise member banks of affiliations that would make individuals ineligible for election as Class B directors.

The memorandum noted that member banks are apprised of statutory provisions regarding eligibility by means of a footnote in the form letter prescribed by the Board for use in announcing forthcoming elections of directors. The footnote also refers to the Board's 1915 resolution regarding the holding of political or public office by directors. Since 1959, however, reference to the 1925 interpretation had been excluded from the form letter because it had been considered impractical to footnote all Board interpretations. As a result of recent questions,

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however, the Legal Division now proposed to restore the reference to the 1925 interpretation, along with reference to the non-eligibility of persons whose sole occupation is that of officer of a savings and loan association, as stated in a 1939 interpretation of the Board.

In discussion of the rationale underlying the Board's position, Mr. Hackley noted that persons engaged in the insurance and savings and loan fields are generally regarded as representing the field of lending, whereas Class B directors are to be selected from among persons engaged in commerce, agriculture, or industry and therefore represent essentially the interests of borrowers.

After further discussion, the letter was approved unanimously.

A copy is attached to these minutes as Item No. 10.

Mr. Young then withdrew and the following members of the staff entered the room:

Mr. Cardon, Legislative Counsel
Mr. Johnson, Director, Division of Personnel Administration
Mr. Sprecher, Assistant Director, Division of Personnel Administration

Interagency exchange of views on merger applications. There had been distributed a memorandum from the Division of Examinations dated August 16, 1963, with regard to a proposal for exchange of staff views on merger applications.

According to the memorandum, Mr. Leavitt and representatives of the Federal Deposit Insurance Corporation had attended a meeting on

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August 13, 1963, that was called by the Department of Justice to discuss the possibility of holding meetings of representatives of the Justice Department and the Federal bank supervisory agencies to exchange views on pending bank mergers. The proposed meetings would be held, at the request of any participating agency, prior to the time reports on competitive factors were submitted to the agency that was to act on a pending merger. The Comptroller of the Currency was invited to the preliminary meeting, but did not choose to have his Office participate.

Mr. Leavitt indicated that he saw certain advantages and certain disadvantages in holding such meetings. Their purpose would appear consistent with the objective of the Bank Merger Act to achieve greater uniformity of approach to bank merger cases. This might not necessarily come about from the proposed meetings, but possibly an improved interagency understanding would develop that would naturally lead to a more uniform approach. As to possible disadvantages, the Comptroller of the Currency did not plan to have his Office participate. Also, the Board conceivably might be criticized for entering into an agreement for interagency discussion prior to the time action was taken on merger applications. Further, it was possible that some one of the participating agencies might try to influence unduly the views of the staff members of other agencies, although this seemed rather doubtful because any such attempts probably would lead to discontinuation of the meetings. Should such meetings be held, it would probably be desirable if discussion of pending applications

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was limited to an exchange of factual information; for example, assistance to the Department of Justice in determining pertinent market or competitive areas. If the meetings could be limited to exchanging facts on specific cases and exchanging views on a general basis, there probably would be benefits. On balance, Mr. Leavitt concluded that the potential advantages probably outweighed the inherent disadvantages. It was his recommendation that the meetings be held on a trial basis, subject to the understanding that they could be discontinued at any time.

Governor Mills said he detected more disadvantages than advantages in the proposal, which he thought presented long-range problems for the Federal Reserve System and its independence. In the area of processing bank merger applications the Justice Department might be described as functioning in a consultant capacity, since it was not a decision-making agency, and admission of the Department to meetings where there would be a general exchange of views could lead to the Department's obtaining a dominant role. His greatest concern was that some one of the agencies engaging in the proposed meetings was going to dominate and was going to color the thinking of the other agencies. Further, staff discussions in such meetings might tend to jell agency thinking on specific cases. If the Board, for example, thereafter overturned the recommendation of its staff on any such case, questions might be raised.

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Governor Robertson expressed the view that there should be as full and complete interagency discussion and disclosure of facts as possible. However, he questioned staff participation in meetings of the kind proposed, which would be held before the Board's staff had made a recommendation to the Board. The Board should have the benefit of independent staff views, not influenced by the views of any other agency. So far as pending merger applications were concerned, he suggested the possibility that representatives of the decision-making agency might exclude themselves from the interagency meeting; once a decision had been reached, however, he saw no objection to staff discussion at interagency meetings concerning the particular case.

Governor Robertson commented further that if an agency charged with making a report on competitive factors needed information from the Board or another banking agency, that should not be precluded. However, staff members of the Board who were charged with formulating a recommendation to the Board on a particular case should have done so before participating in interagency meetings at which that case was discussed.

After consideration of these points and questions related to timing, in view of the requirement that competitive factor reports be submitted within 30 days, Chairman Martin said he would like to bring out that he had expressed to Assistant Attorney General Orrick the personal view that there should be some mechanism for interagency

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consultation. The Chairman added that if agencies charged with responsibilities in common fields were not able to sit down together and discuss mutual problems, he did not know how it would be possible to obtain adequate coordination. His thought had been that it might be helpful to arrange interagency meetings simply to discuss procedural problems. He questioned whether interagency meetings at the Board level would be appropriate, but he thought that such meetings at the staff level might be profitable, subject to the understanding that the principals would not relinquish any authority to overrule the staff at any time.

Mr. O'Connell referred to the frequency of occasions when Justice Department representatives had sought and obtained factual information from the Board's staff relating to pending cases. He also suggested that if it became known in a given case that representatives of the banking agencies and the Justice Department had met and discussed the case prior to the time it was acted upon, an implication might be drawn that there had in fact been a procedure going further than interagency coordination.

Chairman Martin then commented that perhaps the only feasible approach would be to hold interagency staff meetings after decisions on particular cases had been made, although this would not meet completely the problem of coordination among the agencies, following which Governor Robertson offered the suggestion that a procedure might

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be worked out whereby members of the Board's staff who participated in interagency meetings on specific pending cases would be excluded from participating in recommendations to the Board on such cases.

The advantages and administrative complications involved in such a procedure were commented upon, after which Governor Balderston referred to a recent speech in which Mr. Orrick had indicated that participants in possible merger transactions could visit the Justice Department for advance consultation. Using the situation in the Philadelphia area by way of illustration, Governor Balderston raised the question whether the Justice Department would at that stage have available to it a sufficient knowledge of complex competitive factors in the area concerned to afford a basis for encouraging or discouraging the prospective applicants.

After additional discussion along the lines indicated by the foregoing comments, Chairman Martin expressed the view that the Board, as a general principle, should not put itself in the position of appearing to be stand-offish when anybody wanted to discuss a problem. He would not like to see the Board get into a posture of aloofness. The Board should make its own decisions, of course, but it should be willing to cooperate whenever possible.

Pursuant to a suggestion by the Chairman, it was then agreed, in light of the points raised at this meeting, to table the question of the proposed interagency staff meetings. It was understood that

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Mr. Leavitt would advise the Justice Department informally that the Board had not yet decided whether it could participate in such meetings on the basis that had been suggested.

Governor Mitchell joined the meeting at this point.

Analysis of competitive factor reports (Item No. 11). There had been distributed a memorandum from the Division of Examinations dated August 13, 1963, in connection with an oral request from the House Banking and Currency Committee for an analysis of competitive factor reports submitted by the Board to the Comptroller of the Currency for the period from November 16, 1961, to the present time. The Division of Examinations had reviewed all such competitive factor reports and in a listing attached to the memorandum indicated its views on whether the tenor of each report was that the effect on competition would be not adverse, slightly adverse, moderately adverse, or substantially adverse. A draft of letter that would transmit the listing to the Committee was submitted with the memorandum.

Mr. Cardon said that it was his understanding that the summary of the competitive factor reports would be published in the record of the Committee's recent hearings on Conflict of Federal and State Banking Laws. Similar listings had already been furnished by the Federal Deposit Insurance Corporation and the Department of Justice.

During discussion, it was noted that, as set forth in the draft of transmittal letter, the advisory reports on competitive factors are

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submitted without regard to the banking factors involved and therefore do not constitute a recommendation for approval or disapproval, a fact often overlooked. It was also pointed out that because of the many complex considerations involved in these reports, any classification of conclusions into a limited number of categories was necessarily somewhat arbitrary and could be misleading.

Mr. Hackley brought out that if, in rendering competitive factor reports in the past, the Board had reached agreement in each report as to whether the over-all effect of the transaction on competition would be, for example, slightly adverse or moderately adverse, there would be no problem in furnishing the information requested by the Banking and Currency Committee. However, the listing proposed to be transmitted would suggest the general tenor of each report on the basis of a determination by the Board's staff. This troubled him somewhat. On the other hand, similar listings had already been furnished by the Federal Deposit Insurance Corporation and the Department of Justice. If the Board's transmittal letter made it clear that the listing reflected no more than an appraisal of the tenor of the reports by the Board's staff, it was difficult for him to see how the Board could strongly refuse to comply with the request.

Governor Balderston commented that his initial reaction to the request had been negative. In preparing its competitive factor reports, the Board had spent considerable time in arriving at language on which

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the members of the Board could agree in each case, and it had seemed to him doubtful whether the tenor of the reports could effectively be categorized in the manner that had been suggested. However, after analyzing the listing that had been prepared by the staff, his views were less strong. Beyond that, he had concluded that the Board's summaries in its competitive factor reports left something to be desired in that often they were not sufficiently clear cut, and this could be subject to some criticism.

Governor Mills indicated that he would be inclined to transmit the listing with the suggested letter of explanation, but Governor Robertson expressed a degree of reluctance on the ground that he doubted whether full agreement could be reached on the labels attached to the respective reports by the staff and also on the ground that the Board was not obliged by statute to go further than to give its views on the competitive factors involved in a proposed merger. The Board had given the other agencies the benefit of its views, as determined by the members of the Board in considering the various merger applications, and had therefore discharged its responsibility under the statute. He agreed, however, that in the future the Board should endeavor to do a better job in explaining the substance of its views.

Governor Shepardson indicated that he would be inclined to transmit the listing, realizing the difficulties involved. Upon review of the cases concerned, it appeared to him that while there might have

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been some differences of opinion within the Board, there would not have been too many deviations case-by-case from the classifications that the staff had assigned. He did not believe there was enough jeopardy involved to refuse the request.

Governor Mitchell expressed concurrence in the view that the Board was vulnerable to some criticism for having been a bit ambiguous in some of its competitive factor reports. He would not be inclined to make an issue of the present request. He then suggested certain changes in the proposed letter of transmittal to make it clear that the classifications in the listing had been assigned by members of the staff and not by the Board.

The changes suggested by Governor Mitchell were received favorably by the other members of the Board, Governor Robertson commenting that while he would be willing to endorse the competency of the staff members who had worked on the listing, he would not want to indicate that the classification of the respective reports had been reviewed in detail and agreed upon by the Board itself.

In further discussion, Governor Mills expressed agreement with the thought that the Board's competitive factor reports should set forth the Board's position clearly. However, it should be borne in mind that the competitive factor was only one of several factors that a decision-making agency had to consider in deciding a merger application. The danger was that the competitive factor could be raised to a level

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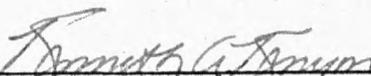
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far out of context with a balanced decision, and the decision reached by an agency on a particular case might appear inappropriate based on knowledge of the competitive factor alone.

The sending of the listing of competitive factor reports to the House Banking and Currency Committee was then approved, along with a transmittal letter to Chairman Patman in the form attached as Item No. 11.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum from the Division of Data Processing, Governor Shepardson today approved on behalf of the Board the appointment of Frank Miller as Operator, Tabulating Equipment (Trainee), Division of Data Processing, with basic annual salary at the rate of \$4,030, effective the date of entrance upon duty.


Assistant Secretary

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

Item No. 1
8/19/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 19, 1963



Mr. Hoyt Ammidon,
Chairman of the Board,
United States Trust Company
of New York,
45 Wall Street,
New York 5, New York.

Dear Mr. Ammidon:

In accordance with the request contained in an application, signed by you and other prospective shareholders, under date of July 8, 1963, for approval and reservation of the name of a corporation to be organized for the purpose of engaging in international or foreign banking pursuant to Section 25(a) of the Federal Reserve Act, the Board of Governors has approved the name "United International Banking Corporation" and this name will be reserved for a period of six months. It is understood that the Home Office of the proposed corporation will be located at 45 Wall Street, New York 5, New York.

You will understand that this approval and reservation of name does not constitute the approval of the organization of a corporation and upon receipt of the proposed articles of association, organization certificate, and other relevant information, consideration will be given to those aspects of the matter.

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
8/19/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 19, 1963



Mr. Hoyt Ammidon,
Chairman of the Board,
United States Trust Company
of New York,
45 Wall Street,
New York 5, New York.

Dear Mr. Ammidon:

In accordance with the request contained in an application, signed by you and other prospective shareholders, under date of July 8, 1963, for approval and reservation of the name of a corporation to be organized for the purpose of engaging in international or foreign financial operations (other than banking) pursuant to Section 25(a) of the Federal Reserve Act, the Board of Governors has approved the name "United International Financing Corporation" and this name will be reserved for a period of six months. It is understood that the Home Office of the proposed corporation will be located at 45 Wall Street, New York 5, New York.

You will understand that this approval and reservation of name does not constitute the approval of the organization of a corporation and upon receipt of the proposed articles of association, organization certificate, and other relevant information, consideration will be given to those aspects of the matter.

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. 3
8/19/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 19, 1963

Board of Directors,
Bankers Trust Company,
New York, New York.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment of a branch at 299-301-303 Sunrise Highway, Incorporated Village of Rockville Centre, Nassau County, New York, by Bankers 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.)

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

Item No. 4
8/19/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 19, 1963



Board of Directors,
Clark State Bank,
Clark, New Jersey.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Clark State Bank, Clark, New Jersey, of a branch at the northeast corner of the intersection of Westfield Avenue and Lincoln Boulevard, Clark, Union County, New Jersey, 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.)

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

Item No. 5
8/19/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 19, 1963

Board of Directors,
Provident Tradesmens Bank and
Trust Company,
Philadelphia, Pennsylvania.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Provident Tradesmens Bank and Trust Company, Philadelphia, Pennsylvania, of a branch at the intersection of Marshall Street and Carwithan Street, Philadelphia, Pennsylvania, provided the branch is established within one year from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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



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

Item No. 6
8/19/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 19, 1963



Board of Directors,
The Richland Trust Company,
Mansfield, Ohio.

Gentlemen:

The Board of Governors has received the request of your bank for permission to carry investment in bank premises in an amount in excess of the bank's capital stock.

The Board understands that during 1962 your bank's wholly-owned subsidiary, The Richland Building Corporation, increased the mortgage against its real estate by \$300,000, which amount resulted in the bank's direct and indirect investment in bank premises and indebtedness on such premises being in excess of the bank's capital stock. The Board further understands that at about the same time, The Richland Building Corporation paid a cash dividend of \$250,000 to the bank in order to augment the bank's capital structure.

Since the Board's prior approval of this transaction, as contemplated by section 24A of the Federal Reserve Act, was not obtained, the Board is not authorized to give that approval. Moreover, the Board does not believe that funds realized by a debt incurred by the bank's wholly-owned subsidiary which, under certain circumstances, might result in liability to the bank, is a desirable means for augmenting the bank's capital structure, and in this case, is comparable to a write-up in the book value of bank premises - a practice not considered sound accounting procedure. However, the Board will not insist upon any corrective action by the bank, in view of the satisfactory condition of the bank, the relatively moderate amount of the excess over capital stock, and its temporary duration.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

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

Item No. 7
8/19/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 19, 1963

Board of Directors,
Peoples Bank & Trust Company,
Montgomery, Alabama.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by Peoples Bank & Trust Company, Montgomery, Alabama, of a branch in Forest Hills Shopping Center on the Atlanta Highway, within the city limits of Montgomery, 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.)

UNITED STATES OF AMERICA

Item No. 8
8/19/63

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of
WELLS FARGO BANK
for approval of merger with
State Center Bank

ORDER APPROVING MERGER OF BANKS

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 Wells Fargo Bank, San Francisco, California, a State member bank of the Federal Reserve System, for the Board's prior approval of the merger of that bank and State Center Bank, Fresno, California, under the charter and title of the former. As an incident to the merger, the six offices of State Center Bank would be operated as branches of Wells Fargo Bank. Notice of the proposed merger, in form approved by the Board, has been published pursuant to said Act.

Upon consideration of all relevant material in the light of the factors set forth in said Act, including reports furnished by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Department of Justice on the competitive factors involved in the proposed merger,

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IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is approved, provided that said merger 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 19th day of August, 1963.

By order of the Board of Governors.

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

Absent and not voting: Governors Robertson and King.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 9
8/19/63

APPLICATION BY WELLS FARGO BANK FOR APPROVAL
OF MERGER WITH STATE CENTER BANK

STATEMENT

Wells Fargo Bank, San Francisco, California ("Wells Fargo"), with deposits of \$2,886 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 merger with State Center Bank, Fresno, California ("State Center"), with deposits of \$26.3 million,* under the charter and title of the former. The proposal contemplates that the six offices of State Center would become branches of the resulting bank. The number of offices operated by Wells Fargo as of June 30, 1963, was 158.

Under the Act, 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, (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

* Deposit figures are as of December 23, 1962.

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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. - The financial history of both Wells Fargo and State Center is satisfactory. The financial condition and capital structure of each is adequate, and their managements are satisfactory. However, State Center faces a management succession problem, which has given rise to the application.

Wells Fargo traces its ancestry to two California banks which were founded in the 1800's, and has grown to its present size in part as the result of a number of mergers and consolidations. It assumed its present name on January 30, 1962. In terms of deposits, Wells Fargo is the third largest bank in California, with 9.9 per cent of total commercial bank deposits in the State, which approval of the application would increase to 10 per cent. The operations of Wells Fargo have been confined to the northern and central portion of the State; and in the twenty-three counties in which it has been functioning, the bank has about 24 per cent of total IPC** deposits held by commercial banks. Its prospects are considered favorable. Consummation of the proposed merger would give it about 5 per cent of total commercial bank deposits in Fresno County and would not cause any unfavorable change in respect to the first four factors specified by the Bank Merger Act.

** Deposits of individuals, partnerships, and corporations.

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State Center was founded in 1955. Its president, the dominant influence in all bank matters since that time, is well past normal retirement age and in poor health. He expects to retire within a year. Despite repeated efforts by the bank, it has been unable to find a suitable successor. The search has been complicated by the fact that the bank achieved its present growth principally through his abilities and influence. The greater part of its business has been done with large commercial customers, unusual for a bank of this size, particularly one located in an area served by branches of several very large banks. It is urged with some force by Wells Fargo that much of the deposit and loan business attracted by State Center's president will be lost, regardless of the choice of his successor, unless State Center is taken over by a bank equipped to furnish the type of services which larger customers require. Accordingly, while prospects of the merged institution are favorable, it seems likely that State Center would lose a significant amount of business were the application to be denied.

There is no indication that the corporate powers of Wells Fargo, State Center, or the resulting bank are, or would be, inconsistent with 12 U.S.C., Ch. 16.

Convenience and needs of the communities. - Aside from a few customers of Wells Fargo, San Francisco exporters who deal in agricultural products from the San Joaquin Valley area, it is not believed that consummation of the proposed merger would have any appreciable

-4-

effect on the convenience and needs of any communities now served by Wells Fargo.

The city of Fresno, with a population of 134,000, is located in the San Joaquin Valley, geographically at the center of California, about 185 miles from San Francisco and 219 miles from Los Angeles.

The county of Fresno leads the United States in value of agricultural production, its principal crops including grapes, cotton, peaches, and alfalfa. Related warehousing and food processing industries, as well as diversified manufacturing, are also important to the economy of the area.

Other banks serving Fresno County include Bank of Tokyo of California, San Francisco, with total deposits of \$77 million, and Central Valley National Bank of Oakland, with total deposits of \$144 million, each having one branch in the county. In addition, there are 39 branches of five Los Angeles and San Francisco banks ranging in size from Bank of America, NT&SA, San Francisco ("Bank of America"), which has total deposits of \$11,569 million, to First Western Bank and Trust Company, Los Angeles, with total deposits of \$580 million. Bank of America is the largest bank serving the county, having 21 of the 49 banking offices and 59.2 per cent of the deposits of the banking offices in the county.

One of State Center's branches, together with the main office, is located in the city of Fresno. Another is in Clovis, about two miles north of the city limits. The remaining three are in Kingsburg, about 20 miles, San Joaquin, about 30 miles, and Huron, about 48 miles to the southeast of Fresno. Offices of Bank of America provide a

choice of banking facilities in Clovis and in Kingsburg, but the nearest alternative source of services to State Center's office in San Joaquin is 15 miles and to its Huron office is 18 miles distant. In recent years, the number of farms in Fresno County has declined and their average size increased substantially, giving rise to a need for larger amounts of agricultural credit, beyond the lending limit of State Center. Nor is the bank equipped to supply the specialized services needed by farmer customers in the communities served by its branches. Injection of a large bank better equipped to compete for this business will provide the communities with an alternative in particular to Bank of America, which has held the largest share of agricultural business in the county.

The banking needs in the city of Fresno are being served by offices of one medium size and five big banks, in addition to State Center and the small First National Bank of Fresno, so that the entrance of another large California bank would not significantly improve service to the community as a whole. Nevertheless, the banking needs and convenience of that part of the public which has been served by State Center would probably be served better by a large bank than by a local bank operating on a reduced scale.

There is also reported to be a growing demand for trust services in the Fresno area, a report which is substantiated by the fact that Crocker-Anglo National Bank of San Francisco has recently established a trust department in its Fresno offices, and that Wells

Fargo, without functioning in the area, now has 22 trust accounts with an aggregate carrying value of almost \$3 million where trustors or beneficiaries reside in Fresno County. State Center does not have a trust department although the customers which it attracts tend typically to make use of trust services, and the trust department of Wells Fargo would meet the needs and convenience of these customers.

Competition. - There is relatively little direct competition between State Center and Wells Fargo. Their nearest offices are 55 miles apart. A survey of more important common customers of the two banks indicated little common business. A survey of deposit or loan accounts in amounts of \$1,000 or more at State Center whose addresses of record were in counties served by Wells Fargo offices, and a corresponding survey on a selective basis by Wells Fargo of deposit and loan accounts with addresses of record in Fresno County, showed small amounts of business of each bank originating in the other's territory. The two banks have had a close correspondent relationship, but loss of a potential customer of the size of State Center would not materially affect the regional market for correspondent banking business.

California banking is highly concentrated, with the nine largest banks in the State holding about 89 per cent of total commercial bank deposits and operating approximately 83 per cent of banking offices in the State. About 40 per cent of total bank deposits in the State

are held by Bank of America. Wells Fargo, while third in size, falls into a group of banks whose shares range from two to about fourteen per cent. During the calendar years 1960, 1961, and 1962, there has been a reversal in California of the trend toward fewer banks, and the total number in the State has climbed from 115 to 129. New charters were granted during that period to 28 banks, while 14 lost their independent identity through merger, or discontinued operations.

In recent years savings and loan associations have grown in California at a rate greatly exceeding that of commercial banks. Four such associations operate a total of nine offices in Fresno County, with total withdrawable balances, as of December 31, 1961, of \$120 million, an increase of 377 per cent over December 31, 1956. Total loans of these institutions increased 372 per cent during the same four-year period. Accordingly, it appears that as to savings shares and real estate mortgages, these associations provide keen competition to the commercial banks in the county.

Summary and conclusion. - The management succession problem at State Center, which threatens to affect its continued development along the path marked out in the seven years of the bank's existence, would be resolved by merger of that bank with one equipped to continue in the same direction. The convenience and needs of the clientele which State Center has chosen to serve would be facilitated by effectuation of the proposal, and in at least two towns where its branches are located, the resulting bank would

offer services needed by the communities which are not presently available there (although conveniently available in other communities within driving distance). Relatively little competition between the two banks would be eliminated, and the degree of banking concentration in California would not be significantly increased by consummation of the proposed merger.

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

August 19, 1963.

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

S-1886
Item No. 10
8/19/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 19, 1963.

Dear Sir:

In connection with the 1962 elections of Federal Reserve Bank directors, question was raised whether the president of a fire insurance company was eligible to serve as a Class B director in view of the provision of section 4 of the Federal Reserve Act that Class B directors "shall be actively engaged in their district in commerce, agriculture or some other industrial pursuit."

In 1925, the Board took the position that a person whose sole occupation is that of an officer of a life insurance company is not eligible for election as a Class B director "because (a) he is not actively engaged in 'commerce, agriculture or some other industrial pursuit' within the meaning of that language as used in the Federal Reserve Act and (b) it is contrary to the policy of Congress for a person so closely identified with the financial interests to be permitted to serve as a Class B director of a Federal Reserve Bank." (F.R.L.S. #3095)

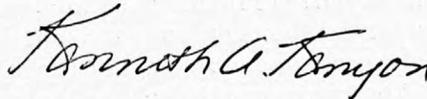
Although the Supreme Court of the United States in 1944, in United States v. Southeastern Underwriters Association, 322 U.S. 533, held that the insurance business constitutes "commerce" within the meaning of the commerce clause of the Constitution, the Board does not regard that decision as necessarily requiring the same interpretation of the provision of section 4 of the Federal Reserve Act here in question. In any event, the Board continues to feel that it would be contrary to the policy of Congress reflected by that provision for officers of insurance companies to be permitted to serve as Class B directors of Federal Reserve Banks. For these reasons, the Board has reaffirmed the position taken by it in the 1925 interpretation mentioned above.

When the procedure and forms for election of Class A and Class B directors were revised in 1959, the form of letter announcing a forthcoming election (F.R.L.S. #3110, Exhibit A) omitted from a footnote a reference to the 1925 interpretation of the Board as well as a reference to an interpretation with respect to the ineligibility of national bank examiners to serve as Reserve Bank directors. The omission of these references, however, was not intended to indicate reversal of those interpretations. They were omitted only because it was not considered practicable to attempt to include in the footnote references to all interpretations of the Board regarding eligibility of directors.

Since the question regarding service of officers of insurance companies as Class B directors continues to arise from time to time, it would seem desirable to advise member banks of the Board's position with respect to this question in connection with announcements of forthcoming elections. Similarly, it would seem desirable to apprise member banks as to the ineligibility of officers of savings and loan associations to serve as Class B directors, a question that also frequently arises.

Accordingly, in order to avoid possible misunderstanding, the last paragraph of the footnote in the letter announcing a forthcoming election (Exhibit A) should be expanded by the addition of the following sentence: "Under interpretations of the Board of Governors of the Federal Reserve System, a person whose sole occupation is that of officer of an insurance company or of a savings and loan association is not eligible for election as a Class B director of a Federal Reserve Bank."

Very truly yours,



Kenneth A. Kenyon,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

2829
Item No. 11
8/19/63

OFFICE OF THE CHAIRMAN

August 19, 1963

The Honorable Wright Patman, Chairman,
Committee on Banking and Currency,
House of Representatives
Washington 25, D. C.

Dear Mr. Chairman:

This refers to your request, transmitted orally by Mr. Poston, General Counsel of your Committee, for a listing of cases after November 16, 1961, in which the Board of Governors has made reports under the Bank Merger Act of 1960 to the Comptroller of the Currency on the competitive factors involved in mergers pending before the Comptroller, with an indication in one or two words of the general tenor of each of the Board's reports.

We understand that you desire to publish this listing in the record of your Committee's hearings on conflict of Federal and State banking laws and that similar listings have been furnished by the Federal Deposit Insurance Corporation and the Attorney General with respect to their reports. It is also understood that the table in which these listings will be incorporated will carry the following footnote: "Advisory reports on the competitive factor are submitted without regard to the banking factors which the Comptroller of the Currency had to consider in arriving at his decision to approve or disapprove the mergers listed in this schedule. Thus, an advisory report described as adverse may not be construed as indicating a recommendation for disapproval of the merger by the reporting agency or agencies." The Board believes that an explanation of this kind is essential to help avoid misunderstanding as to the nature of the reports on competitive factors. Although the reports do not constitute a recommendation as to whether the particular merger should be approved or disapproved, this fact is often overlooked.

There is another danger, however, that a listing of this kind will be misunderstood. Any attempt to classify these reports into four or five categories is necessarily somewhat arbitrary and may be misleading. The considerations that enter into these reports are complex and to some extent conflicting, and there are a number of instances that cannot be exactly quantified to the degree that the proposed classification would suggest.

The Honorable Wright Patman -2-

The Board has not reviewed its advisory reports with the proposed classification in mind, but has asked knowledgeable members of its staff, in whose judgment we have confidence, to do so. They have prepared the enclosed list in compliance with your request.

Sincerely yours,

(Signed) Wm. McC. Martin, Jr.

Wm. McC. Martin, Jr.

Enclosure