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Minutes for September 6, 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	<u>(m)</u>
Gov. Mills	<u>[Signature]</u>
Gov. Robertson	<u>[Signature]</u>
Gov. Balderston	<u>CCB</u>
Gov. Shepardson	<u>[Signature]</u>
Gov. King	<u>[Signature]</u>
Gov. Mitchell	<u>[Signature]</u>

Minutes of a meeting of the available members of the Board of Governors of the Federal Reserve System on Friday, September 6, 1963.

The meeting was held in the Board Room at 10:00 a.m.

PRESENT: Mr. Mills, Acting Chairman
Mr. Robertson
Mr. Shepardson

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Fauver, Assistant to the Board
Mr. Koch, Associate Director, Division
of Research and Statistics
Mr. Brill, Adviser, Division of Research
and Statistics
Mr. Holland, Adviser, Division of Research
and Statistics
Mr. Hersey, Adviser, Division of International
Finance
Mr. Mattras, General Assistant, Office of the
Secretary
Mr. Eckert, Chief, Banking Section, Division
of Research and Statistics
Mr. Yager, Chief, Government Finance Section,
Division of Research and Statistics
Miss Dingle, Senior Economist, Division of
Research and Statistics
Mr. Keir, Senior Economist, Division of
Research and Statistics
Mr. Goldstein, Economist, Division of
International Finance

Money market review. There were distributed tables relating to yields on Government securities, Treasury advance refunding operations, and monetary developments during the five-week period ending September 4, 1963.

Mr. Goldstein reported on recent foreign exchange market developments, after which Mr. Keir discussed the Government securities

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market, with particular reference to the current Treasury advance refunding operation. Mr. Eckert then commented on developments in bank reserves, bank credit, and related matters.

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

Mr. Hackley, General Counsel
 Mr. Solomon, Director, Division of Examinations
 Mr. Daniels, Assistant Director, Division of Bank Operations
 Mr. Goodman, Assistant Director, Division of Examinations
 Mr. Leavitt, Assistant Director, Division of Examinations

The following actions were taken subject to ratification at the next meeting of the Board at which a quorum was present:

Discount rates. The establishment without change by the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco on September 5, 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.

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

Item No.

Letter to The Detroit Bank and Trust Company, Detroit, Michigan, approving the establishment of a branch in the Northland Center, Southfield.

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Item No.

- Letter to First National City Bank, New York, New York, revising the time limit for acquisition by International Banking Corporation of shares of The Mercantile Bank of Canada, Montreal, Canada. 2
- Letter to Bank of America, New York, New York, noting that a proposed investment in shares of Union Internationale de Banques en Tunisie, Tunis, Tunisia, would appear to qualify under the "general consent" provisions of Regulation K. 3
- Letter to First Chicago International Finance Corporation, Chicago, Illinois, granting permission to purchase shares of South East Asia Development Corporation Limited, Kuala Lumpur, Federation of Malaya. 4
- Letter to the Federal Reserve Bank of St. Louis regarding the classification of member banks in the Eighth District for the purpose of electing Class A and Class B directors. 5
- Letter to United California Bank, Los Angeles, California, granting permission to establish a temporary branch at 1227 Fourth Avenue, San Diego. 6
- Letter to Mr. Swan, Chairman of the Committee on Miscellaneous Operations, Conference of Presidents of the Federal Reserve Banks, regarding arrangements between Federal Reserve Banks for currency shipments to adjacent districts. 1/ 7

With reference to Item No. 2, Governor Mills noted that under the proposed arrangement International Banking Corporation would acquire 50 per cent of the stock of The Mercantile Bank of Canada as soon as practicable, but that the Rotterdamsche Bank N. V., Rotterdam, The Netherlands, would retain temporarily the other 50

1/ This item had not been circulated to the Board, but was presented by Mr. Sherman at the meeting. The purpose of the letter was to clarify and confirm certain points in the Board's letter of July 22, 1963, approved by the Board on July 19, 1963.

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per cent, which would be delivered to International Banking Corporation over the next four years. Governor Mills inquired whether such an arrangement might not place International Banking Corporation in an anomalous position if any operational controversies should arise, since it would apparently share control with the Rotterdamsche Bank for some period of time. Mr. Goodman replied that under the proposed arrangement it was clearly understood that International Banking Corporation would have voting control of Mercantile Bank of Canada, despite any appearance to the contrary, upon the transfer of 50 per cent of the stock, and that it would have the right to name the majority of the directors of the bank. This understanding was confirmed by Mr. Solomon.

With reference to Item No. 4, Governor Robertson noted that apparently it was not clear from the available information that the investment in South East Asia Development Corporation would further the development of United States foreign commerce or that the South East Asia Development Corporation could be regarded as a foreign bank. Therefore, unless further information was developed, it seemed questionable whether the proposed investment would qualify under the "general consent" provisions of the revised Regulation K. However, the Board could grant specific consent, and he would prefer to eliminate references in the draft letter as to whether or not the investment would further the development of United States foreign commerce. There was general agreement with Governor Robertson's view, and the draft letter was amended accordingly.

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Messrs. Daniels and Goodman then withdrew from the meeting.

Report on competitive factors (Red Bank-Long Branch, New Jersey).

There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed consolidation of The Monmouth County National Bank, Red Bank, Red Bank, New Jersey, and Long Branch Trust Company, Long Branch, New Jersey.

There had also been distributed a memorandum from Governor Mills, as follows:

The wording of Section V, CONCLUSION WITH RESPECT TO COMPETITIVE FACTORS, compels me to raise the same issues that I have brought before the Board on recent occasions. The Bank Merger Act of 1960 states that "...the appropriate agency shall also take into consideration the effect of the transaction on competition (including any tendency toward monopoly), and shall not approve the transaction unless, after considering all of such factors, it finds the transaction to be in the public interest." As I interpret this section of the statute, consideration of the effect on competition of a proposed merger does not infer that any lessening of competition per se is evil. In fact, statutory reference adjuring watchfulness against any tendency toward monopoly indicates that elimination of competition resulting from a merger must be of significant proportion in order to condemn the transaction purely on the strength of an adverse competitive factor.

In this case, the language in the conclusion, following a modified first sentence ending "would lessen competition somewhat," seems to me to expand on matters that do not deserve the critical attention given to them. While it is in order to state that "the proposal would also increase the concentration of banking resources in Monmouth County," it is questionable, in my opinion, to go on to intimate an undesirable influence on the public interest where the four largest banks in the county would control about 80 per cent of total deposits of all banks in the county. Four large banks serving a population concentration of 190,000 persons do not seem to be out of line with the needs of a rapidly growing area. On the

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contrary, none of the four banks is of a size that would dominate the area's banking structure and, in fact, competition among them could stimulate and expand available banking facilities for the general benefit of the public. To deny the existence of any advantages in the proposed merger in effect condemns Monmouth County business enterprises and individuals to dependence on local banking facilities that are too small to meet their requirements and which can hardly expect to grow to an appropriate service size except through the route of reasonably conceived bank mergers.

Disapproval of the proposed merger would also express an official point of view that Monmouth County banks must remain satellites of New York City and the more important New Jersey banks, rather than independent and self-sufficient banking units on their own account. The conclusion, as now worded, would offer such an intimation. It is also open to objections by inferring that in all instances 80 per cent control of banking resources in an area by four large banks is some sort of a level of concentration that should be proscribed. What might constitute an undesirable concentration of banking resources in one community might not hold for some other community where surrounding financial and economic circumstances were entirely different. In my opinion, therefore, it is a dangerous presumption to cite any percentage control of banking resources as being evil solely by virtue of that percentage figure.

After a general discussion, during which consideration was given to the views expressed in Governor Mills' memorandum, it was agreed that the conclusion of the report should be revised to exclude a phrase regarding the possible adverse effect of the merger on competition. It was also agreed to exclude from the conclusion a clause which stated that if the instant merger and other pending mergers were approved, the four largest banks in Monmouth County would control about 80 per cent of total deposits of all banks in the County.

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The report was then approved unanimously for transmission to the Comptroller with the understanding that the conclusion would be revised, as suggested, to read as follows:

The proposed consolidation of The Monmouth National Bank, Red Bank, Red Bank, New Jersey, and Long Branch Trust Company, Long Branch, New Jersey, would eliminate a significant degree of existing and potential competition between these banks which are now the largest and seventh largest in Monmouth County. The proposal would also increase the concentration of banking resources in Monmouth County.

Report on competitive factors (Boise-Soda Springs, Idaho).

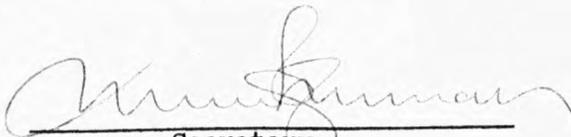
There had been distributed a draft of report to the Comptroller of the Currency on the competitive factors involved in the proposed purchase of assets and assumption of liabilities of Largilliere Company, Bankers, Soda Springs, Idaho, by The Idaho First National Bank, Boise, Idaho.

The report was approved unanimously for transmission to the Comptroller; the conclusion read as follows:

The proposed purchase of assets and assumption of liabilities of Largilliere Company, Bankers, Soda Springs, Idaho, by The Idaho First National Bank, Boise, Idaho, would eliminate little or no competition between participants since their nearest offices are about 105 miles apart, and probably would not have serious consequences on other banks.

There exists a heavy degree of concentration of banking resources in Idaho where the two largest banks operate about half of all commercial bank offices and hold approximately two-thirds of all commercial bank deposits. Any increase in concentration of banking resources in either of these two banks must be considered as seriously adverse to the preservation of banking competition.

The meeting then adjourned.


Secretary

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

Item No. 1
9/6/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 6, 1963

Board of Directors,
The Detroit Bank and Trust Company,
Detroit, Michigan.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Detroit Bank and Trust Company, Detroit, Michigan, of a branch in Unit 1659, B Building, in the Northland Center, Southfield, Oakland County, Michigan, 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.)





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

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Item No. 2
9/6/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 6, 1963

First National City Bank,
399 Park Avenue,
New York 22, New York.

Gentlemen:

Reference is made to Executive Vice President Walter B. Wriston's telephone inquiry on September 4, 1963, regarding the Board's letter of August 29, 1963 granting permission to First National City Bank to increase from \$7,000,000 to \$12,000,000 the amount it may invest in the stock of International Banking Corporation ("IBC") and also granting consent for IBC to purchase and hold:

- (1) All of the outstanding shares of The Mercantile Bank of Canada ("MB"), Montreal, Canada, for approximately Can.\$6,470,000 (approximately US\$5,994,000 equivalent); and
- (2) All of the outstanding shares of Mercantile Trust Company ("MT"), Montreal, Canada, for approximately Can.\$643,000 (approximately US\$595,740 equivalent).

provided such shares are acquired within one year from the date of the Board's letter.

Mr. Wriston called attention to the fact that IBC has entered into a Memorandum of Agreement with the Rotterdamsche Bank N.V. providing for delivery of 50 per cent of the stock of MB as soon as practicable after September 30, 1963, with delivery of the remaining 50 per cent of the stock to be made within four years thereafter, at a time to be set by the Rotterdamsche Bank N.V.

In order that IBC may complete the transaction in accordance with the Memorandum of Agreement, the last two lines of the second paragraph of the Board's letter of August 29 which read:

"provided such shares are acquired within one year from the date of this letter"

First National City Bank

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are changed to read:

"provided that all of the shares of MT and 50 per cent of the shares of MB are acquired within one year from the date of this letter, and the remaining shares of MB within four years after September 30, 1963."

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
9/6/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 6, 1963



Bank of America,
41 Broad Street,
New York 15, New York.

Gentlemen:

This refers to your letter of July 8, 1963, transmitted through the Federal Reserve Bank of New York, requesting consent for Bank of America to purchase and hold 2,800 shares, par value Tunisian Dinars 10 each, of Union Internationale de Banques en Tunisie, Tunis, Tunisia, at a cost of 28,000 Tunisian Dinars, or approximately US\$67,200 (equivalent).

It would appear from the information submitted that the proposed investment would qualify under the General Consent contained in Section 211.8(a) of Regulation K as revised effective September 1, 1963.

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. 4
9/6/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 6, 1963

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

Gentlemen:

In accordance with the request contained in your letter of July 10, 1963, transmitted through the Federal Reserve Bank of Chicago, and on the basis of information furnished, the Board of Governors grants consent for First Chicago International Finance Corporation to purchase and hold 3,000 shares, par value Malayan \$10 each, of South East Asia Development Corporation Limited, ("SEADCL"), Kuala Lumpur, Federation of Malaya, at a cost of approximately US\$10,000, provided such stock is acquired within one year from the date of this letter.

From the information submitted concerning the proposed investment, it is not clear that SEADCL could be regarded as a "foreign bank" within the meaning of the General Consent provisions of Section 211.8(a) of Regulation K as revised effective September 1, 1963. In the circumstances, specific consent has been granted.

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. 5
9/6/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 6, 1963



Mr. Harry A. Shuford, President,
Federal Reserve Bank of St. Louis,
P. O. Box 442,
St. Louis, Missouri 63166.

Dear Mr. Shuford:

This refers to your letter of August 16, 1963, concerning the classification of member banks in the Eighth District for the purpose of electing Class A and Class B directors.

It is noted that, after reviewing the present classification, your Bank believes that it is satisfactory. The Board agrees with this opinion, and will make no change in the existing classification at this time.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

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

Item NO. 6
9/6/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 6, 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 at 1227 Fourth Avenue, San Diego, California, by United California Bank provided the branch is established within six months from the date of this letter. The Board understands that the installment loan department now located at 1269 Fourth Avenue will be housed at this location and that operations at 1227 Fourth Avenue will be discontinued simultaneously with the beginning of operations at Fourth Avenue and B Street, San Diego, California.

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. 7
9/6/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 13, 1963.

Mr. Eliot J. Swan, Chairman,
Committee on Miscellaneous Operations,
Federal Reserve Bank of San Francisco,
San Francisco, California 94120.

Dear Mr. Swan:

This refers to your August 29 letter regarding arrangements between Federal Reserve Banks for currency shipments to adjacent districts.

In the discussion at the Presidents' Conference of June 27, 1963, of the desirability of arrangements for currency shipments across district lines, there was no apparent intent to draw the line between coin and paper currency or to permit a member bank to receive but not dispatch such shipments, even though the minutes of that Conference do not specifically refer to each of these kinds of shipments. Nor did the Board intend to make any of such distinctions in its letter of July 22.

Accordingly, this will confirm your interpretation that the kind of arrangements referred to in the Board's July 22 letter includes shipments of coin as well as paper currency and currency shipments from as well as to a member bank in another district.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.