Minutes for October 14, 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. Mitchell
Minutes of the Board of Governors of the Federal Reserve System

on Monday, October 14, 1963. The Board met in the Board Room at
10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Solomon, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Thompson, Assistant Director, Division of Examinations
Mr. Spencer, General Assistant, Office of the Secretary
Mr. Hricko, Senior Attorney, Legal Division
Mr. Sanders, Attorney, Legal Division
Mr. Harris, Assistant Review Examiner, Division of Examinations

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

<table>
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<th>Item No.</th>
<th>Description</th>
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<tr>
<td>1</td>
<td>Letter to the Federal Deposit Insurance Corporation regarding the application of Texas State Bank, Austin, Texas, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.</td>
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<td>2</td>
<td>Letter to the Federal Deposit Insurance Corporation regarding the application of Farmers State Bank, Cleveland, Texas, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.</td>
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Letter to Texas State Bank, Austin, Texas, waiving the requirement of six months' notice of withdrawal from membership in the Federal Reserve System.

Letter to General Investment Co. of New Mexico, Albuquerque, New Mexico, granting a determination exempting it from all holding company affiliate requirements, except for the purposes of section 23A of the Federal Reserve Act.

Letter to Clear-Vue TV, Inc., Durant, Oklahoma, granting a determination exempting it from all holding company affiliate requirements, except for the purposes of section 23A of the Federal Reserve Act.

With respect to Items 4 and 5, Governor Robertson pointed out that in each instance the holding company affiliate had financed the purchase of the bank stock concerned through a loan from another bank, pledging the stock as collateral for the loan. He thought this was another good reason to look again at the circumstances surrounding so-called section 301 determinations. In making this comment, he was not urging that the Board reverse in these cases the policy applicable to one-bank holding company situations that the Board only recently reaffirmed. He noted, however, that these cases involved relationships that would come to light in any further Congressional survey of chain banking.

Mr. Solomon said that while the bank stock had been acquired by the holding company affiliates in the manner cited by Governor Robertson, in rendering a determination such as had been requested he
did not understand that the Board was required by statute to consider the method of financing used by a holding company affiliate in the acquisition of such stock. Instead, section 301 determinations went to the question of whether the holding company affiliate was engaged as a business in holding the stock of, or managing or controlling, banks.

Governor Shepardson commented that this situation was another indication of a need for revision of the bank holding company law.

Mr. Thompson then withdrew from the meeting and Mr. Fauver, Assistant to the Board, entered the room.

Report on competitive factors (Bridgeport-Stratford, Connecticut). There had been distributed a draft of report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of City Trust Company, Bridgeport, Connecticut, with Stratford Trust Company, Stratford, Connecticut.

In discussion, Governor Robertson noted that Stratford Trust Company was a noninsured bank, which raised the question whether this fact should be mentioned in the conclusion of the report in view of the desirability of having bank depositors protected by deposit insurance. However, it was suggested by Mr. Hexter that to point out specifically in the conclusion that the bank was noninsured would seem to extend the scope of the report beyond the competitive factors involved. A legend at the end of each such report stated that it was
limited to "a report on the competitive factors involved," and the Board had been careful to observe that principle. There was general agreement with this point of view.

After a further discussion relating to the conclusion of the report, and in the light of suggestions made, the report was approved unanimously for transmittal to the Corporation in a form containing the following conclusion:

Although some direct and potential competition would be eliminated by this proposed merger, this would be more than offset by termination of "home office" protection in the town of Stratford. The rapidly developing Stratford area could then be entered by branch operations of other commercial banks which would probably intensify commercial banking competition.

Application of West Branch Bank and Trust Company. At the Board meeting on August 30, 1963, there was preliminary discussion of an application of West Branch Bank and Trust Company, Williamsport, Pennsylvania, for consent to merge with Bank of Newberry, Williamsport, Pennsylvania, under the title Northern Central Bank and Trust Company. The Federal Reserve Bank of Philadelphia had recommended approval of the application; the Board's Division of Examinations recommended disapproval. Since the case was considered to be a close one, however, the Division of Examinations also recommended that consideration be given to affording the applicant an opportunity for oral presentation before the Board. It was agreed that an oral presentation should be held, and such a presentation was made on September 19, 1963. There
now had been distributed to the members of the Board a memorandum dated October 2, 1963, from the Division of Examinations containing a summary and appraisal of views advanced at the oral presentation.

At the Board's request, Mr. Leavitt commented on the application, his remarks being based largely upon the information in the memorandum of October 2 and the transcript of the oral presentation on September 19. During the course of his comments, he pointed out that the Division of Examinations had originally recommended denial of the application but that, after reviewing the transcript of the oral presentation, the Division was now inclined to recommend approval, even though in its view this case remained a close one. While it appeared that the effect upon competition might be adverse to some degree, it seemed to the Division that the area involved would probably benefit from the availability of a larger banking institution.

Following Mr. Leavitt's comments, the views of the members of the Board were expressed.

Governor Mills stated that he would approve the application for the reasons cited by Mr. Leavitt and the Division of Examinations, which were also supported by the analysis of the Federal Reserve Bank of Philadelphia and the transcript of the oral presentation. Even if this case were considered very close—and he did not believe it fell into that classification—he saw no compelling reason to reject a proposal that met with the wishes of the participants, whose wishes
should be respected as an element in the matter. He was reasonably familiar with the area concerned and believed that the merger could be a contributing factor to the financial liveliness of the community.

Governor Robertson said that he would disapprove the application. In his opinion, there was nothing brought out at the oral presentation that changed the situation. The proponents had stated that 18 industrial firms with head offices in Williamsport now went outside the area for a major portion of their financing, but it seemed to him doubtful that any of these potential customers could be attracted if the merger were permitted. The increase in the lending limit by virtue of the merger would not be sufficient to take care of large industries—even a merger of the two largest banks in Williamsport could not satisfy their needs for credit. Further, he saw no validity in the point made with regard to the unusual geographic location of Williamsport—that within a 200-mile radius there was concentrated 25 per cent of the nation's population. The Williamsport banks did not do business throughout that region. The banks providing financial facilities for the larger regional industries were in the larger cities.

In his view there were no particular public benefits to be derived from the expansion of trust services to the Newberry Bank's office and there were no benefits demonstrated in this whole proposal that would outweigh the adverse factor of diminution of competition.
Governor Shepardson agreed that it was probable that the point made about the concentration of population within the 200-mile radius of Williamsport was not significant. However, it did seem to him that a case had been made for the desirability of an increase in the lending limit; as he recalled, that figure would go from $150,000 for West Branch Bank to $250,000 for the merged institution. For the general economic development of the area, it seemed desirable to have a bank of larger lending capacity. He would follow the reasoning and recommendations of the Division of Examinations and therefore would vote for approval.

Governor Mitchell said that he considered this a close case. However, he did not think that the increase in the lending limit was as important a motivating factor as claimed by the proponents of the merger. In his view, the real motivation was that West Branch Bank was limited in its growth potential and would be able to grow faster by acquiring the Bank of Newberry. While the competitive factor in this case seemed mildly adverse, it was not so serious as to cause him concern. Essentially, he went back to Governor Mills' point that where there was no strong reason for not approving a merger, it probably should be approved. On that basis, he would vote for approval of this application.

Governor Balderston said he was rather impressed by the fact that during the 20-year period ending in 1960 the suburbs had been
growing at a rate of 57 per cent, while the city population of Williamsport had declined almost 6 per cent. On balance, he came out where the Division of Examinations had; after listening to the oral presentation, he would vote to approve.

Chairman Martin also having indicated that he would approve, the application of West Branch Bank and Trust Company to merge with Bank of Newberry was approved, Governor Robertson dissenting for the reasons he had indicated. It was understood that the Legal Division would draft an order and supporting statement reflecting the majority decision for the Board's consideration and that a dissenting statement in support of the negative vote of Governor Robertson also would be prepared.

Messrs. Hricko and Harris then withdrew.

Investment Securities Regulation. There had been distributed a memorandum dated October 10, 1963, from the Legal Division with regard to the applicability of certain provisions of the Investment Securities Regulation of the Comptroller of the Currency to member State banks of the Federal Reserve System. The revised Regulation became effective September 12, 1963. Since it had been issued under paragraph Seventh of section 5136 of the Revised Statutes, pursuant to section 9 of the Federal Reserve Act it was binding upon member State banks as well as national banks, except for any provisions of the Regulation that were beyond the Comptroller's power to adopt.
The memorandum discussed first the provisions of the revised Regulation with respect to the underwriting of securities by national banks and by member State banks, and the purchase of securities for investment. It was suggested that, since the Comptroller was not authorized by law to expand the category of exempt securities established and described in paragraph Seventh of the Revised Statutes, the revised Regulation did not have the force and effect of law insofar as it attempted to do this. Accordingly, member State banks should be informed that, in the Board's opinion, the only securities exempt from the limitations and restrictions of paragraph Seventh were those specified in that statutory provision. Unless a particular issue of securities was so exempted, member State banks should not underwrite the issue, and the prohibition against investing more than 10 per cent of capital and surplus in securities of any one obligor was applicable.

The memorandum also discussed the application of the revised Regulation to purchases by member State banks of convertible debentures, noting that in the light of specified statutory and regulatory provisions it was believed that member State banks could not lawfully invest in convertible securities when the price substantially exceeded the investment value of the obligation, considered independently of the conversion feature. The memorandum pointed out that the Comptroller probably would permit national banks to purchase convertible securities even though the price was far in excess of the investment value. If
the Federal Reserve adopted a more restrictive interpretation, some
member State banks might complain that they were placed at a competi-
tive disadvantage. Whether this would be a disadvantage was a matter
of judgment, but some member State banks might be expected to argue
that they should not be barred from any field that was open to national
banks.

The Legal Division's memorandum submitted a draft of a pro-
posed Board statement on these matters that would be distributed by
the Federal Reserve Banks to all member State banks.

At the Board's request, Mr. Hexter commented on the afore-
mentioned questions, his comments being based substantially on the
October 10 memorandum.

Following Mr. Hexter's comments, there was a general discussion
of procedures that might be most appropriately followed in this
situation, with several alternative possibilities suggested. At the
conclusion of the discussion, agreement was indicated with a suggestion
by Chairman Martin that, for reasons stated, the matter be deferred for
further consideration at another meeting. It was understood that in
the circumstances the revised Investment Securities Regulation would
not be published in the October 1963 issue of the Federal Reserve
Bulletin, since such publication might tend to convey the impression
that the Board agreed with all of the provisions thereof in their
applicability to member State banks.
All members of the staff except Mr. Sherman then withdrew from the meeting.

Appointment of First Vice President at Minneapolis. Chairman Martin referred to conversations he had had with Chairman Bean of the Federal Reserve Bank of Minneapolis regarding a successor to First Vice President A. W. Mills, who was to retire at the end of 1963. He stated that Chairman Bean had asked for an informal reaction to the possible appointment of Vice President and General Counsel M. H. Strothman, Jr., to succeed Mr. Mills.

After all members of the Board indicated that they would be prepared to approve the appointment of Mr. Strothman, it was understood that Chairman Martin would convey this information to Chairman Bean.

The meeting then adjourned.

Secretary's Notes: Pursuant to recommendations contained in memoranda from the Division of Administrative Services, Governor Shepardson today approved on behalf of the Board the following actions relating to the Board's staff:

Appointment

Gordon M. Davis, Sr., as Carpenter-Operating Engineer in the Division of Administrative Services, with basic annual salary at the rate of $6,157, effective the date of entrance upon duty. (Dual occupancy position status to November 30, 1963, and permanent status thereafter.)

Salary increase

Wilbert L. Stephens, from $3,770 to $3,980 per annum, with a change in title from Laborer to Supply Clerk in the Division of Administrative Services, effective the date of entrance upon his new duties.
Acting in the absence of Governor Shepardson, Governor Robertson today noted on behalf of the Board a memorandum from the Division of Examinations advising that application for retirement had been filed by G. Halvor Bockman, Assistant Federal Reserve Examiner, effective at the close of business October 25, 1963.
October 14, 1963

The Honorable Jesse P. Wolcott, Director,
Federal Deposit Insurance Corporation,
Washington, D. C. 20429.

Dear Mr. Wolcott:

Reference is made to your letter of September 26, 1963, concerning the application of Texas State Bank, Austin, Texas, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

While there are no corrective programs that the Board of Governors believes should be incorporated as conditions to the continuance of deposit insurance, the bank has been urged to strengthen its capital position.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
The Honorable Jesse P. Wolcott, Director,
Federal Deposit Insurance Corporation,
Washington, D. C. 20429.

Dear Mr. Wolcott:

Reference is made to your letter of September 30, 1963, concerning the application of Farmers State Bank, Cleveland, Texas, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

While there are no corrective programs that the Board of Governors believes should be incorporated as conditions to the continuance of deposit insurance, the bank has been urged to strengthen its capital position.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
Board of Directors,
Texas State Bank,
Austin, Texas.

Gentlemen:

The Federal Reserve Bank of Dallas has forwarded to the Board of Governors a letter dated September 18, 1963, signed by President Joseph H. Stjepcevich, together with the accompanying resolution, signifying your intention to withdraw from membership in the Federal Reserve System and requesting waiver of the six-months' notice of such withdrawal.

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

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

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
This refers to the request contained in a letter dated May 20, 1963, submitted to the Federal Reserve Bank of Kansas City, for a determination by the Board of Governors of the Federal Reserve System as to the status of General Investment Co. of New Mexico ("General Investment"), as a holding company affiliate.

From the information presented, the Board understands that General Investment is principally engaged in the loan and insurance brokerage business; that it is a holding company affiliate by reason of the fact that it owns 16,700 of the 20,000 outstanding shares of stock of The First National Bank of Grants, Grants, New Mexico; and that it 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 General Investment 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, it 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 General Investment 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, should future acquisitions by or activities of General Investment result in its attaining a position whereby the Board may deem desirable a determination that General Investment 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) Merritt Sherman

Merritt Sherman,
Secretary.
Mr. Bennett Story, President,
Clear-Vue TV Inc.,
Durant, Oklahoma.

Dear Mr. Story:

This refers to the request contained in a letter dated September 9, 1963, submitted to the Federal Reserve Bank of Dallas, for a determination by the Board of Governors of the Federal Reserve System as to the status of Clear-Vue TV Inc. ("Clear-Vue"), as a holding company affiliate.

From the information presented, the Board understands that Clear-Vue is engaged in the operation of community television cable systems; that it is a holding company affiliate by reason of the fact that it owns 25,300 of the 50,000 outstanding shares of stock of The First National Bank of McAlester, McAlester, Oklahoma; and that it 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 Clear-Vue 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, it 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 Clear-Vue 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, should future acquisitions by or activities of Clear-Vue result in its attaining a position whereby
the Board may deem desirable a determination that Clear-Vue 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) Merritt Sherman

Merritt Sherman,
Secretary.