

9/63

Minutes for October 30, 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

MM

Gov. Mills

[Signature]

Gov. Robertson

R.

Gov. Balderston

CCB

Gov. Shepardson

[Signature]

Gov. Mitchell

[Signature]

Minutes of the Board of Governors of the Federal Reserve System
on Wednesday, October 30, 1963. The Board met in the Board Room at
10:00 a.m.

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

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of
Examinations
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Conkling, Assistant Director, Division
of Bank Operations
Mr. Leavitt, Assistant Director, Division
of Examinations
Mr. Spencer, General Assistant, Office
of the Secretary
Mr. Hricko, Senior Attorney, Legal Division
Mr. Veenstra, Chief, Call Report Section,
Division of Bank Operations
Mr. Achor, Review Examiner, Division of
Examinations

Application of Security Savings Bank. There had been distributed a memorandum from the Division of Examinations dated October 23, 1963, and other pertinent papers with respect to the application of Security Savings Bank, Marshalltown, Iowa, for permission to acquire the assets and assume the liabilities of Peoples Savings Bank, Laurel, Iowa. The Division's recommendation was favorable.

At the Board's request, Mr. Leavitt reviewed the facts of the case, the competitive factor reports received, and the reasons underlying the favorable recommendation of the Division of Examinations, his comments

10/30/63

-2-

being based on the information contained in the memorandum of October 23. In the course of this review, Mr. Leavitt noted that under Iowa State banking law, branches are merely paying and receiving stations and are known as bank offices. Loans are made from the main office. In the case now before the Board, Peoples Savings Bank would become a bank office of Security Savings Bank.

Governor Mills stated that he found this case difficult to decide, largely because there was a deficiency in State banking law which prohibited branch banking but permitted the existence of a multitude of small banks. In his opinion, the law should permit a banking office to continue the same range of services to the community as was rendered prior to a merger. Security Savings Bank would acquire about a million dollars in deposits when it merged with the Peoples Savings Bank without, in effect, accepting any offsetting responsibility to serve the community. Further, the merger would lead to some additional dominance of the Security Savings Bank in the Marshalltown area. On a narrow basis, Governor Mills said, he would approve the merger, but he thought it was a troublesome case.

Governor Robertson stated that he had been acquainted with President McCleery of Peoples Savings Bank many years ago. However, his contacts with Mr. McCleery had been few in the interim. He had therefore concluded that it would not be inappropriate for him to participate in the decision on this case.

10/30/63

-3-

Governor Robertson went on to note that although the proposed transaction would eliminate the one bank in Laurel, Iowa branch banking laws were not so restrictive with respect to providing for the needs of small communities as might at first appear. Merger of the two banks would mean that an application in Laurel for a loan must be sent into the home office; the power to make a loan would not reside in the manager of the banking office. However, loans would be extended by the Marshalltown bank and people in the Laurel community would still be served, although some slight delay might be involved. The size of the two institutions was not such as to preclude approval. Therefore, he would agree with the recommendation of the Division of Examinations and the Federal Reserve Bank of Chicago.

Governor Shepardson stated that he also concurred with the recommendation of the Division of Examinations. He felt the point raised by Governor Mills was important, but action on this case would seem to have little bearing from the standpoint of facilitating a change in the law.

Governor Balderston also indicated that he would approve the application, noting, however, that the point raised by Governor Mills was of significance in States that prohibited branch banking.

The application of Security Savings Bank was then approved unanimously, with the understanding that an order and statement reflecting this decision would be prepared for the Board's consideration.

10/30/63

-4-

Messrs. Hricko and Achor then withdrew from the meeting.

Analysis of competitive factor reports (Item No. 1). There had been distributed a memorandum from the Division of Examinations dated October 28, 1963, regarding a letter of October 7, 1963, in which Chairman Celler of the House Committee on the Judiciary requested to be advised as to what merger applications submitted to the Comptroller of the Currency and the Federal Deposit Insurance Corporation had been the subject of adverse reports on competitive factors by the Board. The request covered the year 1962 and the first six months of 1963. 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 slightly adverse, moderately adverse, or substantially adverse. A draft of letter that would transmit the listing to Chairman Celler was submitted with the memorandum.

In discussion, Governor Robertson stated that he would not favor the sending of the proposed listing to Chairman Celler. The letter from Mr. Celler did not ask that an attempt be made to determine the degree of adverse effect on competition. In his opinion, the Board should delete from the proposed listing the qualifications of slightly adverse, moderately adverse, or substantially adverse; or simply transmit copies of the reports in which an adverse recommendation was made. He believed there would be certain cases on which individual members of the Board

10/30/63

-5-

would not agree with the characterization of the tenor of the reports. He recognized that an analysis of competitive factor reports submitted by the Board to the Comptroller of the Currency had been furnished recently to Chairman Patman of the House Banking and Currency Committee in response to a somewhat similar request. He had agreed to that with some reluctance, and he now felt that a mistake had been made.

Governor Mills observed that the proposed letter brought out that the classification of the reports involved a value judgment by members of the Board's staff. If a letter was transmitted with a listing of bank mergers showing only that the reports were adverse, interested parties might be led to believe that the reports were seriously adverse in all cases.

Mr. Shay remarked that he had discussed this matter with a staff member of the Committee. In view of that conversation, he would support including the gradations. This would give color to the fact that a report of this type was not a recommendation for a decision but a report on the competitive factors only.

Mr. Solomon expressed the opinion that the proposed listing would come closer to giving a true picture. While the differentiations in the listing might not be crystal sharp, this presentation was not so susceptible of confusing the issue badly. While either approach that had been proposed might have some disadvantages, the Board was less likely to be placed in an awkward position than if it sent a package of reports to Chairman Celler with the statement that all of the reports were adverse.

10/30/63

-6-

There followed further discussion during which it was suggested that the letter sent to Chairman Celler should make it clear that the list of competitive factor reports did not include reports that were not adverse. There were also suggestions for certain editorial changes in the proposed letter and the headings of the attached listing.

During this discussion, Governor Shepardson noted that Chairman Celler's letter asked that similar information be furnished regarding advisory reports submitted to the Board by the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

It was pointed out, in reply, that Mr. Cardon, Legislative Counsel, had discussed this matter with Mr. Marcus of the Committee's staff and that it was understood that the Committee would obtain this information from the Comptroller and the Corporation. It was agreed that a sentence should be inserted in the Board's letter to refer to this understanding.

Following further discussion, the sending of the listing of competitive factor reports to the House Committee on the Judiciary was approved, along with a transmittal letter to Chairman Celler in the form attached as Item No. 1. Governor Robertson, who indicated that he agreed with the changes that had been suggested in the draft letter, dissented, for the reasons he had stated, from the decision to transmit to the Committee a listing of competitive factor reports showing gradations of adverse effect.

10/30/63

-7-

Justice Department request for deposit data by counties (Item No. 2). There had been distributed a memorandum from the Division of Bank Operations dated October 24, 1963, with regard to a request by the Department of Justice for (1) verification of its understanding of certain California deposits-by-counties data furnished previously by the Board's Division of Bank Operations; (2) explanation of certain variations in county totals; and (3) permission to make disclosure in judicial proceedings of county deposit totals for identified banks provided permission was obtained from the banks involved.

The memorandum noted that on August 14, 1963, representatives of the Department of Justice inquired informally regarding the availability of individual bank figures underlying published deposits-by-counties data. On August 15, 1963, the Justice Department was furnished copies of telegrams between the Division of Bank Operations and the Federal Reserve Bank of San Francisco, which indicated that the Bank could assemble deposits-by-counties data for individual banks for the years 1954 and 1956 for member banks only and that 1962 data for all classes of banks were available at the Board. On August 20, 1963, there was a formal request from the Justice Department for a breakdown of deposits held by individual banks in certain California counties in 1954, 1956, and 1962. On August 30, 1963, the Justice Department was informed that the requested data would be furnished by the Board for June 30, 1962, and that data for 1954 and 1956 would be compiled at the San Francisco Bank. The Justice

10/30/63

-8-

Department was also informed that prior to 1960 these data were collected from banks on a confidential basis and that the 1954 and 1956 data would be furnished with the understanding that the form and manner of their use would be such as to avoid disclosure of figures for any identified banks.

On September 18 and 26, 1963, data requested by the Justice Department were transmitted to it, and the Department was reminded that the 1954 and 1956 data were collected from banks on a confidential basis. In a letter dated October 3, 1963, the Department of Justice requested verification of their understanding of the data, explanation of variations in totals, and permission to disclose individual bank data. Subsequently, the Division of Bank Operations inquired of the San Francisco Reserve Bank regarding the Justice Department's letter of October 3. The Reserve Bank made no comment regarding the Department's request for authorization to disclose data for individual banks. However, on October 22, 1963, President Swan, in an informal conversation regarding the exchange of correspondence and the source of the national bank data, indicated possible adverse consequences if the Board should authorize disclosure of the national bank data.

Attached to the memorandum of October 24 was a draft of letter to the Department of Justice that would confirm its understanding of the statistics previously furnished and would explain the variations in 1954 and 1956 county totals. Further, the draft of letter would interpose no

10/30/63

-9-

objection to the disclosure of data for June 1954 and June 1956 for State member banks only, provided permission was obtained from the banks involved. The draft also indicated that similar authorization by the Board with respect to nonmember and national banks would be inappropriate.

At the Board's request, Mr. Conkling reviewed the background of the Justice Department's request, noting that the Department presumably was requesting permission to disclose data relating to county deposit totals for certain banks in connection with litigation concerning a pending bank merger in California. Mr. Conkling went on to note that in the case of data for State member banks, figures were submitted to the Federal Reserve by the individual banks for the 1954 and 1956 biennial deposits-by-counties surveys. Similar reports for national banks and nonmember banks were processed by the Comptroller of the Currency and the Federal Deposit Insurance Corporation but were not available to the Federal Reserve Bank. The data presented for national banks were obtained from the local regional office of the Comptroller of the Currency as of the date each bank was examined nearest the June 30 deposits-by-county report date. Data for nonmember banks for 1954 and 1956 were taken from June 30 reports of condition of individual banks for those years, which included a breakdown by branches furnished to the California supervisory authorities.

10/30/63

-10-

In discussion following Mr. Conkling's remarks, Governor Mills said that as he understood the request, it was for the release of unpublished information for use in an adversary proceeding in California instituted by the Justice Department, with the understanding that the banks involved would be asked to permit disclosure of this information. California, he judged, was a State where banks were not obliged by statute to publish deposit figures of branches. As he saw it, the individual banks could hardly refuse to permit the disclosure of this information if asked by the Justice Department, and the Board was an accessory to placing them in this position. The matter was one that left a bad taste. The end result might not make a great deal of difference as a practical matter, but the background made him unhappy.

Governor Robertson stated that he would approve the proposed letter.

Governor Shepardson said he had somewhat the same feeling as Governor Mills. He did not know what would be accomplished by use of the information, but on the other hand he saw no real basis for denial if the individual banks were to accede to a request from the Department of Justice for use of the statistics. It was doubtful, of course, that as a practical matter they could resist such a request.

Governor Balderston indicated that he also was sympathetic with Governor Mills' position, but that he saw no practical alternative other than to reply in the manner suggested.

10/30/63

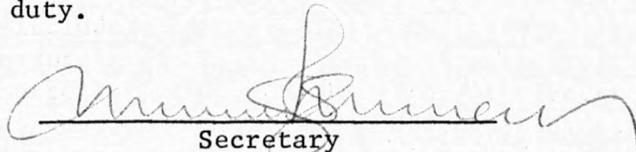
-11-

There followed a general discussion during which possible alternative approaches were explored; it was brought out that the Department of Justice apparently could subpoena the desired information from the banks concerned. At the conclusion of the discussion, the letter to the Justice Department was approved in the form attached as Item No. 2.

The meeting then adjourned.

Secretary's Notes: Pursuant to the recommendation contained in a memorandum from Mr. Molony, Assistant to the Board, Governor Shepardson approved on behalf of the Board on October 29, 1963, the transfer of Walter Jordan, Jr., from the position of Messenger in the Division of Administrative Services to the position of Messenger in the Board Members' Offices, with an increase in basic annual salary from \$3,560 to \$3,770, effective the date he assumes his new duties.

Pursuant to the recommendation contained in a memorandum from the Division of Bank Operations, Governor Shepardson today approved on behalf of the Board the appointment of Robert J. Solodow as Analyst in that Division, with basic annual salary at the rate of \$6,675, effective the date of entrance upon duty.


Secretary

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

Item No. 1
10/30/63

OFFICE OF THE VICE CHAIRMAN

November 1, 1963



The Honorable Emanuel Celler, Chairman,
Committee on the Judiciary,
House of Representatives,
Washington, D. C.

Dear Mr. Chairman:

This refers to your request, as contained in your letter of October 7, 1963, for information as to the tenor of the competitive factors reports on proposed mergers submitted by the Board to the Federal Deposit Insurance Corporation and Comptroller of the Currency during 1962 and the first six months of 1963. It is our understanding from conversations between Mr. Marcus of your staff and Mr. Cardon of the Board's staff that information regarding similar advisory reports prepared by the Federal Deposit Insurance Corporation and the Comptroller of the Currency will be requested from those agencies.

The Board has not reviewed its advisory reports on competitive factors, but it has asked knowledgeable members of its staff to do so and they have prepared the enclosed lists covering reports submitted to the Corporation and the Comptroller. In keeping with your request, the lists do not include those cases where the effect on competition was not considered adverse. In those cases where some adverse effect on competition was believed to exist, the liberty of classifying our advisory reports as slightly, moderately, or substantially adverse has been taken.

The enclosed lists include the following footnote: "Advisory reports on the competitive factors are submitted without regard to the banking factors which the Comptroller of the Currency [or 'the Federal Deposit Insurance Corporation'] had to consider in arriving at a decision to approve or disapprove the applications listed in this schedule. Thus, an advisory report described as adverse should 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: such reports do not constitute a recommendation as to whether the particular merger should be approved or disapproved, but this fact is often overlooked.

The Honorable Emanuel Celler

- 2 -

There is also the danger that a listing of this kind will be misunderstood. Any attempt to classify these reports into three or four categories is necessarily somewhat arbitrary and may be misleading, since the considerations that enter into these reports are complex and to some extent conflicting.

Sincerely yours,

(Signed) C. C. Balderston

C. Canby Balderston,
Vice Chairman.

Enclosures.

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

Item No. 2
10/30/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

November 1, 1963

Mr. Robert L. Wright, First Assistant,
Antitrust Division,
U. S. Department of Justice,
Washington, D. C. 20539

Dear Mr. Wright:

This is in response to your letter of October 3, 1963, addressed to Mr. Conkling, requesting (a) verification of your understanding of the statistics enclosed with letters sent to your Division under dates of September 18 and September 26; (b) explanation of certain variations in 1954 and 1956 county totals shown in the schedules; and (c) permission to make disclosure, in judicial proceedings, of the 1954 and 1956 county deposit totals for identified banks which were originally collected on a confidential basis, provided prior consent is obtained from those banks.

Your understanding of the statistics is correct. They represent the amounts of the indicated categories of deposits held by offices of the listed banks situated within the designated counties.

You also ask about the footnotes on the schedules for 1954 and 1956 prepared by the Federal Reserve Bank of San Francisco and forwarded to you on September 26. These were intended to indicate that differences in source, composition, and timing of data for the various classes of banks accounted for the variations between published county deposit figures and the totals of the breakdown by bank as shown in the schedules.

In the case of data for State member banks, figures were submitted to the Federal Reserve by the individual banks for the 1954 and 1956 biennial deposits-by-counties surveys as of June 30. Similar reports for national banks and nonmember banks were processed by the Comptroller of the Currency and the Federal Deposit Insurance Corporation but were not available to the Federal Reserve Bank for its compilations.

Mr. Robert L. Wright

-2-

The data presented for national banks were obtained from the local regional office of the Comptroller of the Currency as of the date each branch was examined nearest the June 30 deposits-by-county report date. These latter figures included balances due to or due from the head office and other branches, which were excluded from deposits in the figures submitted by the individual banks for purposes of the biennial publication; thus, with respect to national banks, the schedules prepared by the Reserve Bank are only approximations of the breakdown, by bank, of deposits by counties at midyear 1954 and 1956.

Data for nonmember banks for 1954 and 1956 were taken from June 30 reports of condition of individual banks for those years, which included a breakdown by branches, furnished to the California supervisory authorities.

Incident to the review of the source of the county data about which you inquired, the Reserve Bank rechecked some of its county figures and has forwarded the attached revised schedules for Alameda, Contra Costa, Marin, and San Francisco Counties. It will be appreciated if you will substitute these for the corresponding schedules that were sent to you on September 26.

With respect to your request for permission to make disclosure of these data in judicial proceedings, the Board would interpose no objection to the disclosure of data for June 1954 and 1956 for State member banks provided prior consent is obtained from the banks involved. Since the Board did not originate the county data that were sent to you for national banks and nonmember State banks, the Board could not appropriately authorize disclosure of data for those banks. However, your Department might wish to request disclosure authorization from the State banking department of California as to nonmember State bank data and from the Comptroller of the Currency as to national bank data.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Enclosure