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Minutes for December 11, 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

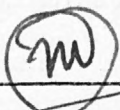


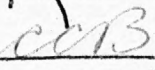
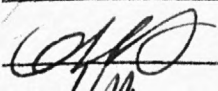


Gov. Robertson

Gov. Balderston

Gov. Shepardson

Gov. Mitchell

Gov. Daane

Minutes of the Board of Governors of the Federal Reserve System on Wednesday, December 11, 1963. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Balderston, Vice Chairman
Mr. Robertson
Mr. Shepardson
Mr. Mitchell 1/
Mr. Daane

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Solomon, Director, Division of Examinations
Mr. Shay, Assistant General Counsel
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Leavitt, Assistant Director, Division of Examinations
Mr. Thompson, Assistant Director, Division of Examinations
Mr. Mattras, General Assistant, Office of the Secretary
Mr. Hricko, Senior Attorney, Legal Division
Mr. Young, Senior Attorney, Legal Division
Mr. Egertson, Supervisory Review Examiner, Division of Examinations
Mr. Poundstone, Review Examiner, Division of Examinations

Discount rates. The establishment without change by the Federal Reserve Bank of Minneapolis on December 10, 1963, of the rates on discounts and advances in its existing schedule was approved unanimously, with the understanding that appropriate advice would be sent to that Bank.

1/ Joined meeting at point indicated in minutes.

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

Item No.

Letter to Western National Bank of Denver, Denver, Colorado, granting its request for permission to maintain reduced reserves.

1

Letter to Siwybas, Inc., Grand Prairie, Texas, granting a determination exempting it from all holding company affiliate requirements except those contained in section 23A of the Federal Reserve Act.

2

Letter to Bank of America, New York, New York, terminating the consent previously granted to purchase stock in a Turkish foreign trade bank.

3

Messrs. Conkling and Poundstone then withdrew from the meeting.

Application of County Trust Company. There had been distributed a memorandum from the Division of Examinations dated December 2, 1963, along with other pertinent papers, relating to the application of The County Trust Company, White Plains, New York, for permission to merge with The First National Bank of Brewsters, Brewster, New York.

At the Board's request, Mr. Leavitt summarized the application, basing his comments essentially on information contained in the material that had been distributed.

Governor Robertson noted that Assistant Cashier Rayser of First National Bank had come from a large Westchester County bank, and he inquired whether the Westchester bank in question might not be County Trust Company. If this were so, he felt that the shift in personnel

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might have been a preparatory step to lay the groundwork for the proposed merger. He also noted that County Trust had negotiated a compensation agreement with Vice President and Cashier Mead of First National Bank. Governor Robertson then raised a further question regarding the degree of concentration of deposits of County Trust without regard to county lines; the distributed material had focused on Westchester County, whereas First National was located in Putnam County.

At this point the meeting recessed in order to allow the Board members to participate in the Board's Christmas program. The meeting reconvened at 11:20 a.m. with the same attendance except that Mr. Hunter, Supervisory Review Examiner, Division of Examinations, was present and Mr. Thompson was not present.

Mr. Leavitt reported that during the recess he had been in contact by telephone with the Federal Reserve Bank of New York and was advised that Mr. Rayser had been employed by County Trust Company prior to joining First National Bank. However, there was no evidence that his change of employment was related to bringing about the proposed merger. Mr. Leavitt added that it would in any event be very difficult to determine the motives underlying such a shift in personnel. With regard to County Trust's concentration in its area of operations following the proposed merger, Mr. Leavitt noted that the Brewster bank was relatively small; its addition would dilute only slightly County Trust's position in its total area of operations. However, any broadening of the area beyond Westchester County would weaken the relative position of County

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Trust; its concentration appeared strongest when Westchester County only was considered.

The members of the Board then expressed their views, and Governor Robertson stated that he would approve the application, although reluctantly because of the size and dominance of County Trust. Also, although there were grounds for no more than suspicions, he was not entirely satisfied about the mechanics employed in negotiating the proposed merger. Further, he felt that County Trust might become the dominant banking factor in Putnam County, as it was now in Westchester County. Nonetheless, he would approve the application on the basis that First National Bank allegedly was not meeting the needs of its community. The resulting institution would be able to provide better banking services. Also, it appeared that at present no appreciable competition existed between the two merging institutions.

Governor Shepardson stated that there appeared to be definite prospects of improved service to the Brewster community if the merger were approved, and he noted also that there was virtually no competition between the two institutions. He felt that the factor of area dominance was made somewhat less significant by the recent change in New York State law permitting New York City banks to move into Westchester County. This had already resulted in some diminution of the dominant position of County Trust in the area. For these reasons, and in view of the minimal amount of additional resources that County Trust would acquire through the proposed merger, he would approve the application.

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Governor Daane stated that he would approve. The merger would result in improved banking services in the Brewster area, and it would add only slightly to the resources of County Trust, resulting in little change in its competitive position. Also to be considered in appraising County Trust's position was the increased competition attributable to the expansion of New York City banks into Westchester County.

Governor Balderston said that he would approve the application for the reasons cited by the Division of Examinations. It appeared that improved banking services would be provided to the Brewster area through the merger, without deleterious effects from the standpoint of competition.

Thereupon, the application of County Trust Company was approved unanimously, with the understanding that an order and statement reflecting this decision would be prepared for the Board's consideration.

Application of Lorain County Savings & Trust Company. There had been distributed a memorandum from the Division of Examinations dated December 3, 1963, along with other pertinent papers, relating to the application of The Lorain County Savings & Trust Company, Elyria, Ohio, for permission to merge with The Central Bank Company, Lorain, Ohio.

At the Board's request, Mr. Leavitt summarized the application, basing his comments on the information contained in the memorandum, and stated reasons why the Division of Examinations recommended approval.

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The members of the Board then expressed their views beginning with Governor Robertson, who said that he would disapprove the application. In his opinion, confusion had arisen because of the comparison of the size of Cleveland banks with the relatively small banks in the Lorain-Elyria area. The business that was too big for the local banks was already being taken care of by the Cleveland banks, and he did not think that this business could be retrieved even with the establishment of a larger local bank through the merger process. Thus, the proposed merger would simply result in eliminating one alternative source of banking services for the customer of smaller size. The two banks applying to merge served an overlapping competitive area. The independence of the Lorain and Elyria communities and the rivalries between them had militated against more competition up to this time, but these rivalries were said to be breaking down. The merger of the two banks, which were sizable for their localities, would eliminate not only present competition but potential competition, and the resulting institution would control 35 per cent of the IPC deposits of County banks, a considerable degree of concentration, developed not through independent growth but through merger. Both banks were good institutions; in terms of capacity to operate they were in no trouble. The only aspect that seemed entitled to any weight was the management problem at Central Bank, and this was not the kind of problem that had to be solved through merging the bank. It involved shareholders who did not see eye to eye and a bank president who had

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become a "yes" man. Those within the bank should be able to work out this problem themselves and develop the bank into a good competitive institution.

Governor Shepardson noted that there was competition, actual and potential, between the two banks and that taking into account only locally-headquartered banks, the resulting institution would control 35 per cent of County deposits, which would appear a rather high degree of concentration. On the other hand, granting that the larger accounts that had been lost to the Cleveland banks were not likely to be retrieved, nevertheless Lorain-Elyria was a rapidly growing, highly industrialized area. It seemed entirely reasonable to suppose that the area contained a considerable number of businesses and industrial enterprises whose credit needs would be growing. Unless adequate banking services were available locally, their business would move to the Cleveland banks. Thus, in a growing industrial community of this type, the establishment of a larger local bank through merger would seem justified. Taking into account the estimated volume of business of Cleveland banks in the area, the record indicated that perhaps 20 per cent would be the percentage of area deposits held by the resulting institution. It would appear that in the area there was a significant amount of competition from the Cleveland banks, and that they were an influential factor in the banking structure.

The meeting then recessed and reconvened at 3:30 p.m., with Vice Chairman Balderston and Governors Robertson, Shepardson, Mitchell,

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and Daane present. From the staff Messrs. Sherman, Kenyon, Hackley, Solomon, Shay, Leavitt, Mattras, Hricko, Young (Legal Division), and Egertson were present.

Discussion of the merger application of Lorain County Savings & Trust Company continued as the staff responded to several questions raised by Governor Mitchell for the purpose of eliciting information on certain points. For Governor Mitchell's benefit, Governor Robertson then restated the views on the proposed merger that he had previously expressed at the morning session. This was followed by comments by Mr. Leavitt, in reply to a question by Governor Balderston, concerning the percentage of County deposits that would be held by the institution resulting from the merger, inclusive and exclusive of the estimated deposits held by Cleveland banks.

Governor Shepardson then continued the statement of his views on the application that had been interrupted when the Board recessed earlier in the day. As he had said earlier, he saw justification from the standpoint of the needs of the community for a larger locally-headquartered banking institution. From the standpoint of concentration, he thought it necessary to give weight to the deposit holdings of Cleveland banks in the area, even though precise statistical evidence was lacking. Looking at some of the larger industrial firms in the area, it seemed reasonable to expect that substantial deposits were held by Cleveland banks. While the merger would combine two of the larger banks in the County, there were other banks about equal in size

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to each of the merging institutions in each of the two cities concerned, and there would be a total of seven banks with offices in the County. Thus, it did not seem to him that the merger would result in undue concentration or lack of availability of sufficient alternative sources of banking services. In summary, while the merger would result in elimination of competition between the two banks, this did not seem so significant when the participation of Cleveland banks in the area was taken into account. Looking at the characteristics of the community and its prospective future growth, there seemed to be need for a larger bank. He also felt that the banking factors deserved considerable weight. A feud between important shareholders in Central Bank had existed for some time, and an important minor shareholder apparently was in a position to pursue this feud, if the merger was not approved, to the point of bringing about a situation that might be detrimental not only to the bank and its shareholders but to the community. The present active management of the bank obviously was not adequate, and while it was easy to say that a bank of this size should be able to hire competent management, he questioned whether in the circumstances the situation could be resolved without detriment to many interests. For all these reasons, he would approve the application.

Governor Mitchell raised certain questions about the ratio of banking offices to population in the Lorain County area and, on the basis of information supplied by Mr. Leavitt, expressed himself as satisfied that the number of banking offices could be regarded as reasonably adequate.

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Governor Mitchell then commented that this seemed clearly a case that would involve elimination of competition. As to the communities involved, it was hard to tell whether a person was in Elyria or Lorain. In many respects they were one community, and they were becoming increasingly so. The merger would provide local businesses with one less banking alternative. He saw no problem from the standpoint of larger depositors; many mergers could take place throughout the United States and there would still be plenty of competition, so far as it involved facilities available to large corporations. The greater concern was with the facilities available to small businesses. Evidence suggested that the larger a bank became the more it tended to concentrate its interest in the larger customers. It was important that the resources of banks should be made available to the local business community. In this case there would be a serious potential loss of competition. While he was not unsympathetic to the idea of solving a troublesome management problem that had continued over a period of time through the merger device, the sacrifice on the competitive side was in his opinion too great to warrant approval of the application.

Governor Daane said that despite the persuasiveness of the case presented by the Division of Examinations, he could not see his way clear to vote for approval of the application. Clearly there would be a substantial increase in the concentration of control of banking resources in the area. Also, granting the possibility that the competitive factor might eventually work the other way, at least at this

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junction it argued against the merger. Based on his familiarity with this area, he was somewhat puzzled as to who would benefit by the increase in the lending limit of a bank of this sort. The large customers were accommodated at the Cleveland banks, and it did not appear that a local bank could recapture that business. Even recognizing that the merger would be helpful in solving the management problem at Central Bank, he could not see that this was a factor of sufficient weight to warrant approval of the merger.

Governor Balderston said he put little stock in the argument about additional services that would be rendered to the community by a larger bank. However, he was troubled about the responsibility that the Board might be said to have where a bank's directors were involved in a conflict of long standing. It would be unfortunate if denial of the application led to a situation that would detract from the bank's reputation in the eyes of its customers and the community generally. Clearly there would be a reduction in competition if the merger were to be approved. Nevertheless, after trying to think of practical ways of solving the problem that had arisen within the board of directors of Central Bank, he failed to see just how it could be suggested that the problem be handled in a manner that would not be injurious to the bank and its future. Not being able to resolve that question in his own mind, he came out with a feeling that the merger should be approved.

It thus developed that three of the Board members present favored denying the merger while two Board members favored approving it.

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In this circumstance two questions were raised: the first, by Governor Daane, related to the possibility of holding the application over for further consideration when additional members of the Board were present; the second question was whether an oral presentation should be held. On the first question, it was brought out that as a general practice the Board had taken up matters, including merger applications, at times when for various reasons less than a full Board was available, so long as a quorum was present. With certain exceptions, this practice had been considered generally desirable from the standpoint of expediting the conduct of the Board's business. As to the question of an oral presentation, it was stated that such presentations had been ordered for the most part in situations where it appeared that there was a likelihood of eliciting additional information. It was also pointed out that if denial of an application were announced, the applicant institutions could ask for reconsideration, in which event the Board might elect to order an oral presentation.

In the course of the discussion, Governor Daane indicated that although he did not feel too strongly about the matter, he would be agreeable to having an oral presentation. This case, he noted, was clearly not in the black and white area. While he would have some qualms about denying the application, he would have more about approving it on the basis of what he had heard thus far. He was not sure that an oral presentation would change any of the positions that had been

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expressed at this meeting. But in a case of this character he would feel somewhat happier if all of the members of the Board were able to participate in the decision.

Governor Robertson expressed the view that the information before the Board seemed quite complete and that it was doubtful whether an oral presentation would be particularly helpful in adding to the available information. He noted that the applicants could always ask for reconsideration, and he would prefer to leave the initiative to them.

Governor Shepardson likewise expressed doubt that anything significant would be developed in an oral presentation by way of additional factual information, at least of such nature as to change the views expressed by the Board members today. As to the application itself, he could not understand the idea that in a growing industrial community there would not be growing needs for bank credit that the local banks should be expected to meet. When, as in this case, a virtual doubling of lending capacity was in prospect, it seemed to him that an opportunity was afforded to serve the growing firms in the community. As to national firms, they were not apt to be coming back to the local banks, but in a community the size of the Lorain-Elyria area, growing as it was, there were bound to be a number of firms expanding to a level that required larger credit facilities, and there was the question of holding that banking business within the community. As to the smaller borrowers and depositors, he felt that a total of six

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banking institutions in these two towns would leave quite a variety of alternative sources of banking services.

Governor Daane said he had the feeling that this was an area so close to Cleveland as to make it hard to say that it was a growing independent area that needed a complete range of banking facilities on a local basis. It was somewhat an extension of the City of Cleveland.

Governor Mitchell recalled that the points referred to by Governor Shepardson had been discussed by the Board in previous cases, notably certain bank holding company applications in the State of Wisconsin. He considered it necessary to concentrate on defining the customers of the banks and their credit needs. Obviously, the credit needs of individuals would not double in size. When it came to small businesses, they might conceivably grow beyond the credit capacity of the local banks. However, the typical small business within a community would tend to stay pretty much the same size.

After further discussion of the economic characteristics of the Lorain-Elyria area, Governor Shepardson said, on the question of an oral presentation, that he thought it would be up to the applicant banks to decide whether they wished to appeal from the Board's decision.

Question was raised by Governor Mitchell whether, in any recent instances where there was a three-to-two split of opinion among five Board members, the case had been carried over so that additional members of the Board might participate in the decision. The response was that no such cases could be recalled.

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Governor Balderston expressed the view, as to an oral presentation, that the comments by Governors Robertson and Shepardson suggested the best practice. If the applicants subsequently requested reconsideration, the Board could consider such a request on its merits.

After further discussion of the Board's procedures in holding company cases, Governor Mitchell stated that he would align himself with those who favored having no oral presentation.

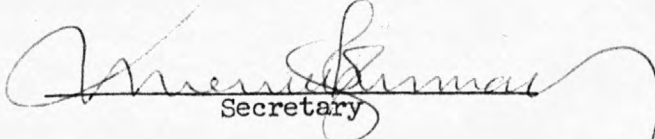
Accordingly, it was the consensus that no oral presentation on the application should be ordered. The application was denied by majority vote, Governors Shepardson and Balderston dissenting, with the understanding that drafts of an order and statement reflecting this decision would be prepared for the Board's consideration and that a dissenting statement or statements by Governors Shepardson and Balderston also would be prepared.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board the following items:

Letter to the Federal Reserve Bank of Chicago (attached Item No. 4) approving the appointment of Donald D. Staver as examiner.

Memorandum from the Division of Examinations recommending acceptance of the resignation of Linda Ann Hill, Stenographer in that Division, effective January 3, 1964.


Secretary

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

Item No. 1
12/11/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 11, 1963

Board of Directors,
Western National Bank of Denver,
Denver, Colorado.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of Kansas City, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Western National Bank of Denver to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective with the first biweekly reserve computation period beginning after the date of this letter.

Your attention is called to the fact that such permission is subject to revocation by the Board of Governors.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2
12/11/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 11, 1963

Mr. L. S. Stufflebene,
President,
Siwybas, Inc.,
727 East Main Street,
Grand Prairie, Texas.

Dear Mr. Stufflebene:

This refers to the request contained in your letters of November 19 and 20, 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 Siwybas, Inc. ("Corporation") as a holding company affiliate.

From the information presented, the Board understands that Corporation is engaged in the business of investing in land, stocks, and in other business ventures; that it is a holding company affiliate by reason of the fact that it owns 6,895 of the 13,750 outstanding shares of stock of First National Bank in Grand Prairie, Grand Prairie, Texas; 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 Corporation is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling banks, banking associations, savings banks, or trust companies, within the meaning of section 2(c) of the Banking Act of 1933 (12 U.S.C. 221a); and, accordingly, 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 Corporation might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make further determination of this

Mr. L. S. Stufflebene

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matter at any time on the basis of the then existing facts. Particularly, should future acquisitions by or activities of Corporation result in its attaining a position whereby the Board may deem desirable a determination that Corporation is engaged as a business in the holding of bank stock, or the managing or controlling of banks, the determination herein granted may be rescinded.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



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

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Item No. 3
12/11/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 11, 1963.

Mr. Tom B. Coughran,
Executive Vice President,
Bank of America,
41 Broad Street,
New York 15, New York.

Dear Mr. Coughran:

In accordance with the request contained in your letter of November 22, 1963, the consent granted in the Board's letter of June 4, 1963 for Bank of America to purchase and hold 25 per cent of the capital stock of a Turkish foreign trade bank in Istanbul, Turkey, at a cost of approximately US\$277,778, is hereby terminated.

It is noted that you now propose to make an investment of less than 25 per cent of the voting shares of the Turkish bank under the general consent provisions contained in Section 211.8(a) of the revised Regulation K.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

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Item No. 4
12/11/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 11, 1963

Mr. Leland Ross, Vice President,
Federal Reserve Bank of Chicago,
Chicago, Illinois.

Dear Mr. Ross:

In accordance with the request contained in your letter of December 4, 1963, the Board approves the appointment of Donald D. Staver, at present an assistant examiner, as an examiner for the Federal Reserve Bank of Chicago, effective December 30, 1963.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.