

Minutes for December 24, 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

M

Gov. Mills

[Signature]

Gov. Robertson

[Signature]

Gov. Balderston

DOB

Gov. Shepardson

[Signature]

Gov. Mitchell

[Signature]

Gov. Daane

[Signature]

Minutes of a meeting of the available members of the Board of Governors of the Federal Reserve System on Tuesday, December 24, 1963. The meeting was held in the Board Room at 10:00 a.m.

PRESENT: Mr. Robertson, Acting Chairman
Mr. Mitchell
Mr. Daane

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Fauver, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Noyes, Director, Division of Research and Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Holland, Adviser, Division of Research and Statistics
Mr. Conkling, Assistant Director, Division of Bank Operations

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 Bank of Boston on December 23, 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.

Application of Old Kent Bank and Trust Company (Items 1 and 2).

There had been distributed drafts of an order and statement reflecting the decision of the Board at the meeting on December 18, 1963, to approve the application of Old Kent Bank and Trust Company, Grand Rapids, Michigan, for permission to consolidate with Community State Bank, Grandville, Michigan.

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After discussion, the issuance of the order and statement was authorized. Copies of the documents, as issued, are attached as Items 1 and 2.

Salaries of New York officers (Item No. 3). Unanimous approval was given to a letter to the Federal Reserve Bank of New York (copy attached as Item No. 3) approving the payment of salaries to Messrs. John F. Pierce and Robert Lindsay as officers of the Bank for the period January 1 through December 31, 1964, at the respective annual rates fixed by the Board of Directors. The incoming letter from the Bank noted that Mr. Pierce was scheduled to leave the Bank, probably in the latter part of January 1964, to accept appointment as Governor of the Central Bank of Trinidad and that Mr. Lindsay was on a year's leave of absence terminating in September 1964 to teach at the University of California. The action taken would permit the payment of salary to Messrs. Pierce and Lindsay for those portions of the year 1964 for which they were working for the Reserve Bank.

Special salary structure maximum (Item No. 4). By letter to the Federal Reserve Banks dated November 18, 1963, the Board indicated its willingness to approve a special maximum of \$17,500 for Grade 16 of the salary structure of any Federal Reserve Bank whose directors might request that such a maximum be established. The object of the special maximum was to facilitate the recruitment and retention of certain types of professional personnel.

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The Secretary noted that some Reserve Banks had requested and received approval of the special maximum pursuant to the Board's action, and that such a request had now been received from the Federal Reserve Bank of New York. The sending of a letter (copy attached as Item No. 4) approving the special maximum for the New York Bank was noted without objection.

Call report (Items 5 and 6). There had been distributed copies of a letter dated December 20, 1963, from A. J. Faulstich, Administrative Assistant to the Comptroller of the Currency, relating to the Board's letters to the Comptroller dated November 27 and December 18, 1963. The incoming letter stated that the "reconciliation schedule" that the Board proposed to require of all national banks as of the December call date constituted, in the view of the Comptroller's Office, "a discriminatory and intolerable reporting burden which has the effect of penalizing National Banks for the high standards of public disclosure which they are following." It also stated that the Office had decided to omit from the December call "the valuation reserve reporting requirement employed in the September call."

In view of this advice, from which it appeared that the December call report form for national banks would resemble the form used for the June 29, 1963, call, it was agreed that the sending of the reconciliation schedule to national banks in connection with the December call would not be necessary. This was on the assumption that the call report

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form for national banks, when available for inspection, would be found to be in a format such as indicated by the letter from Mr. Faulstich. Also on this assumption, consideration was given to a reply to the Comptroller, and unanimous approval was given to a letter in the form attached as Item No. 5.

Secretary's Note: Inspection of the form being used by the Comptroller for the December call confirmed that the use of the supplemental reconciliation schedule for reports of national banks would not be needed. Accordingly, the reply to the Comptroller, a copy of which is attached to these minutes as Item No. 5, was sent on December 24, 1963. The Federal Reserve Banks were advised in a wire dated December 26 that the use of the supplemental reconciliation schedule would not be required and that supplies of those schedules therefore could be destroyed.

Governor Robertson stated that, as Acting Chairman of the Board, he had entered his dissent yesterday on a document dated December 18, 1963, selecting the close of business December 20, 1963, as the time and date for all insured banks to make reports of condition pursuant to section 7 of the Federal Deposit Insurance Act, such call to be announced on December 26, 1963. This document bore the signatures of James J. Saxon, as Comptroller of the Currency and Acting Chairman of the Federal Deposit Insurance Corporation, and Jesse P. Wolcott, as a Director of the Corporation.

Governor Robertson also stated that, as Acting Chairman of the Board, he had signed a document making the joint call for reports of

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condition by insured banks. This document bore the signatures of Messrs. Saxon and Wolcott, in the same capacities as indicated on the document selecting the call date.

Mr. Sherman reported that under date of December 23, 1963, there had been received a letter signed by Edison H. Cramer, Chief of the Division of Research and Statistics of the Federal Deposit Insurance Corporation, stating that the close of business December 20, 1963, had been selected as the date for the fourth call for reports of condition to be made by insured banks within the calendar year 1963; that the call would be announced on December 26; and that the Corporation was that day notifying the various State banking authorities of the call date and time of announcement.

Mr. Sherman said that following receipt of the letter from Mr. Cramer he had sent the customary wire to the Federal Reserve Banks advising that a call on State member banks for reports of condition as of December 20, 1963, should be made December 26 on forms furnished with the Board's letter of December 18, 1963. As usual, the action taken in sending the telegram was subject to ratification by the Board.

Secretary's Note: The action taken in sending the wire was ratified at the meeting of the Board on December 30, 1963.

In furtherance of previous discussion, consideration was given to the text of a guideline that would not be released publicly by the Board but could be used by members of the Board, Mr. Molony's office,

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and Reserve Bank Presidents in replying to any inquiries concerning the date of the call.

After discussion in the light of pertinent developments, including the information contained in the December 20 letter from Mr. Faulstich, agreement was reached on the form of a guideline and on its transmittal to the Reserve Bank Presidents along with certain other information. Attached as Item No. 6 is a copy of the wire subsequently sent to the Reserve Banks.

Foreign travel. As requested in a memorandum dated December 20, 1963, from Mr. Young, Adviser to the Board and Director, Division of International Finance, Rodney H. Mills, Economist in the Division of International Finance, who had previously been designated to visit the Bank of Spain for one month (April 1964), was authorized to extend his travel for two weeks to visit the central banks of France and Italy, with the provisions of the standardized Government travel regulations to be applicable to the entire trip.

The meeting then adjourned.

Secretary's Notes: Acting in the absence of Governor Shepardson, Governor Robertson today approved on behalf of the Board a telegram to the Federal Reserve Bank of Richmond (attached Item No. 7) approving the appointment of Lloyd W. Bostian, Jr., and Douglass H. Adams as examiners.

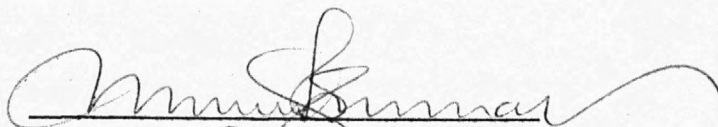
Governor Robertson today noted on behalf of the Board a memorandum from the Division of Research and Statistics advising that Grace R. Sahn,

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Draftsman Illustrator in that Division, had filed application for retirement, effective at the close of business December 30, 1963.

There was sent today to the Federal Reserve Bank of Minneapolis a letter (copy attached as Item No. 8) approving the payment of salary to President Deming for the period January 1 through December 31, 1964, at the rate of \$40,000, if so fixed by the Board of Directors. This letter was sent pursuant to the action taken by the Board of Governors on December 9, 1963, with regard to salaries of Reserve Bank Presidents and First Vice Presidents.



Secretary

UNITED STATES OF AMERICA

BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WASHINGTON, D. C.

In the Matter of the Application of
OLD KENT BANK AND TRUST COMPANY
for approval of consolidation with
Community State Bank

ORDER APPROVING CONSOLIDATION OF BANKS

There has come before the Board of Governors, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), an application by Old Kent Bank and Trust Company, Grand Rapids, Michigan, a State-chartered member bank of the Federal Reserve System, for the Board's prior approval of the consolidation of that bank and Community State Bank, Grandville, Michigan, under the charter and title of the former. As an incident to the consolidation, the two offices of Community State Bank would be operated as branches of Old Kent Bank and Trust Company. Notice of the proposed consolidation, in form approved by the Board, has been published pursuant to said Act.

Upon consideration of all relevant material in the light of the factors set forth in said Act, including reports furnished by the

Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Department of Justice on the competitive factors involved in the proposed consolidation,

IT IS HEREBY ORDERED, for the reasons set forth in the Board's Statement of this date, that said application be and hereby is approved, provided that said consolidation shall not be consummated (a) within seven calendar days after the date of this Order or (b) later than three months after said date.

Dated at Washington, D. C., this 24th day of December, 1963.

By order of the Board of Governors.

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

Absent and not voting: Governor Balderston.

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

(SEAL)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Item No. 2
12/24/63

APPLICATION BY OLD KENT BANK AND TRUST COMPANY
FOR APPROVAL OF CONSOLIDATION WITH
COMMUNITY STATE BANK

STATEMENT

Old Kent Bank and Trust Company, Grand Rapids, Michigan ("Old Kent"), with deposits of \$307.6 million as of September 30, 1963, has applied, pursuant to the Bank Merger Act of 1960 (12 U.S.C. 1828(c)), for the Board's prior approval of the consolidation of that bank and Community State Bank, Grandville, Michigan ("Community Bank"), with deposits of \$18 million as of the same date, under the charter and title of Old Kent. As an incident to the consolidation, the two offices of Community Bank would be operated as branches of Old Kent, increasing the number of its approved offices to 29.

Under the Act, the Board is required to consider, as to each of the banks involved, (1) its financial history and condition, (2) the adequacy of its capital structure, (3) its future earnings prospects, (4) the general character of its management, (5) whether its corporate powers are consistent with the purposes of 12 U.S.C., Ch. 16 (the Federal Deposit Insurance Act), (6) the convenience and needs of the community to be served, and (7) the effect of the

transaction on competition (including any tendency toward monopoly). The Board may not approve the transaction unless, after considering all these factors, it finds the transaction to be in the public interest.

Banking factors. - The proposed consolidation is the direct result of serious difficulties, which recently came to light, centering principally in the mobile home financing department of Community Bank. The bank's condition is hazardous, its capital having declined to a dangerously low point following charge-offs that were made because of loan losses in that department. Moreover, there are potential losses, including large contingent liabilities in connection with the servicing of mobile home or trailer paper sold by the bank to other banks. The future earnings prospects of the bank are highly unfavorable. Aside from the subject application, there has been no proposal that would remedy satisfactorily the bank's distressed condition brought about by deficiencies in its management, which owns a majority of the bank's stock.

The financial history of Old Kent is satisfactory. The bank's asset condition also is satisfactory, and its capital structure is adequate. The future earnings prospects of the bank are favorable, and its management is satisfactory. Nothing in the record indicates that these attributes would not also characterize the resulting bank, or that the resulting bank - which would be under the management of Old Kent and which would continue Old Kent's experienced trailer loan division - could not satisfactorily resolve the problems involved in its assimilation of Community Bank.

There is no evidence that the corporate powers of the banks are, or would be, inconsistent with 12 U.S.C., Ch. 16.

Convenience and needs of the communities. - Grand Rapids, with a population exceeding 177,000, is the largest city and the leading industrial, commercial, and financial center in the western portion of the lower peninsula of Michigan. The population of the Grand Rapids metropolitan area is around 300,000, and the trade area has a population of nearly one million. Old Kent offers a full range of banking and trust services at its main office and 19 branches in Grand Rapids, and its six out-of-city branches. Another authorized in-city branch is not yet open for business.

The main office of Community Bank is at Grandville, which has a population of about 8,000 and which is situated approximately five miles southwest of Grand Rapids. Hudsonville, the site of Community Bank's only branch, is situated about five miles southwest of Grandville and has a population of about 2,600. The two towns have no other banking offices. Primarily suburban residential and shopping centers, the economies of Grandville and Hudsonville are closely related to Grand Rapids. The areas surrounding the two small towns, each of which has a few small industries, are devoted largely to truck farming.

The areas served by Old Kent and Community Bank are served also by over 30 offices of other banks, and two of the banks (one in Grand Rapids and one in Byron Center) recently established branches at Jenison, two miles east of Grandville, and Jamestown, three miles

southeast of Hudsonville. These branches provide convenient alternative sources of banking services for residents of Grandville and Hudsonville.

Over one-third of Community Bank's loan account comprises trailer paper of borrowers far removed from the Grandville-Hudsonville area. A serious question arises as to whether that bank has devoted appropriate attention to the needs of the two communities. In any event, as branches of Old Kent, the Grandville and Hudsonville banking offices would make available in each of the towns a substantially higher lending limit and a wider range of services than are presently available at those offices.

The convenience and needs of the Grandville-Hudsonville area clearly would be served by the proposed correction of the hazardous situation, previously outlined, which, if allowed to deteriorate further, might leave both towns without functioning banking offices.

Competition. - As the service areas^{1/} of Old Kent and Community Bank overlap near the southwestern limits of Grand Rapids and since Old Kent is an active competitor throughout the western portion of Michigan's lower peninsula, effectuation of the proposal would eliminate the competition existing between the two banks. However, as the seriously weakened condition of Community Bank makes its continuance as a viable banking institution doubtful, its effectiveness as a competitor already has greatly diminished.

^{1/} That area from which a bank derives 75 per cent or more of its deposits, both demand and time, of individuals, partnerships, and corporations (IPC deposits).

Of the eight banks having offices in the service areas of the two banks, Old Kent is by far the largest, having more than twice the volume of deposits and the number of offices of the next largest bank. Old Kent holds 48.9 per cent of the total deposits and has 42.8 per cent of the offices of all the banks in the service areas of the two banks. Community Bank ranks fifth in size among the eight banks.

If the proposal were consummated, Old Kent's share of the deposits would be increased to 51.8 per cent and its share of the offices would rise to 46 per cent. This would not significantly change the competitive situation in Grand Rapids. However, competition would be intensified for the recently established Jenison branch of the third largest of the Grand Rapids banks and also for the recently established Jamestown branch of the Byron Center State Bank (4.5 miles from Grandville), the smallest bank in the area. Also, the small banks at Wyoming (3.6 miles from Grandville) and at Byron Center would be placed at some competitive disadvantage. Under Michigan law, establishment of branches by Old Kent in Grandville and Hudsonville would preclude the establishment of branches in either town by other banks, although the location in either town of a newly organized bank would be permissible.

Summary and conclusion. - It is evident that consummation of the proposed consolidation would enhance the competitive position of Old Kent, already the dominant bank among the eight banks serving the Grand Rapids and Grandville-Hudsonville areas, and would have an adverse effect on banking competition. On the other hand, the proposed

transaction is the only practical solution to the extremely hazardous situation that besets Community Bank (the fifth largest of the eight banks) which, if not remedied promptly, risks substantial detriment to the public. In addition, there would be some improvement and broadening in the banking services available at Grandville and Hudsonville.

Accordingly, the Board finds the proposed consolidation to be in the public interest.

December 24, 1963.

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

Item No. 3
12/24/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 24, 1963.



CONFIDENTIAL (FR)

Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York, New York 10045.

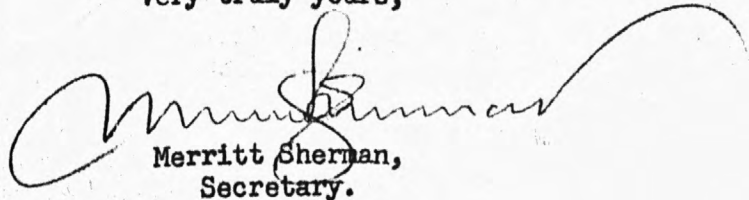
Dear Mr. Hayes:

The Board of Governors approves the payment of salaries to the following officers of the Federal Reserve Bank of New York, at rates indicated, for the period January 1 through December 31, 1964:

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>
John F. Pierce	Chief Examiner	\$17,500
Robert Lindsay	Senior Economist	16,000

The salary rates approved are those fixed by your Board of Directors, as reported in your letter of December 16, 1963.

Very truly yours,


Merritt Sherman,
Secretary.

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

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Item No. 4
12/24/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 24, 1963.

CONFIDENTIAL (FR)

Mr. Alfred Hayes, President,
Federal Reserve Bank of New York,
New York, New York 10045.

Dear Mr. Hayes:

The Board of Governors has approved a special Grade 16 maximum of \$17,500 in the salary structure applicable to the Head Office of the Federal Reserve Bank of New York, effective immediately, as requested in your letter of December 10, 1963.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman".

Merritt Sherman,
Secretary.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 5
12/24/63

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 24, 1963.



The Honorable James J. Saxon,
Comptroller of the Currency,
Main Treasury Building, Room 3120,
Washington, D. C. 20220

Dear Mr. Saxon:

This is in response to Mr. Faulstich's letter of December 20, 1963, informing the Board of your decision to return to the reporting of assets net of valuation reserves in the national bank report of condition form to be used for the December call. Your action in this respect should insure the uniform treatment of valuation reserves in all Federal and State bank call report forms for December, an objective very much to be desired. It was the Board's interest in this objective that led its representatives to urge the reporting of assets net of reserves in the December call, inasmuch as there was not sufficient time to permit changes in the forms intended for use in December by the other bank supervisory agencies.

The Board remains ready to consider the specific itemization of valuation reserves in the published portion of the call report form, in such uniform or compatible manner as may be judged appropriate by all the supervisory agencies involved.

Sincerely,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

TELEGRAM
LEASED WIRE SERVICE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

CONFIDENTIAL (FR)

December 24, 1963

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

With reference to date of call for December report of condition, Board anticipates some inquiries may be received as to why the particular date was selected when this becomes public information. There is quoted below the substance of a guideline that will be used as a basis for responding to inquiries received at the Board regarding the date.

"In recent weeks the Federal Reserve System and the Federal Deposit Insurance Corporation have been engaged in an effort to persuade bankers that no useful purpose is served by so-called 'window dressing' operations for the purpose of inflating year-end figures of condition, and that such operations, by a relatively small number of banks, tend to discredit the banking business generally. In the light of the reassurances it has received, and the obvious statistical advantages of a year-end call, the Federal Reserve would have preferred a December 31 call date. However, under the law the call date is selected by the majority of the heads of the three Federal bank supervisory agencies, and in this case the date was selected by the Comptroller of the Currency and the acting Chairman of the Board of the FDIC. The Reserve Board feels that those member banks who had given assurance that they would refrain from window dressing over the year end should know that the December 20 date was selected over the objection and without the concurrence of the acting Chairman of the Board of Governors."

No announcement or press statement on this subject is being issued by the Board, and it is not believed desirable that any Reserve Bank issue a

CONFIDENTIAL (FR)

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December 24, 1963

formal statement as to the reasons for selection of the date. Reserve Banks may, however, use the substance of the guideline as a basis for responding orally to inquiries if they so desire.

For your bank's information only, the document selecting the date was signed affirmatively by Mr. Saxon in his capacity as Comptroller of the Currency and Acting Chairman of the Board of Directors of the Federal Deposit Insurance Corporation and by Mr. Wolcott as a director of FDIC. Governor Robertson, as Acting Chairman of the Board, dissented from the selection. The notice to appear in the Federal Register actually making the call is, of course, signed by the heads or acting heads of the three agencies, pursuant to provisions of law.

For your further information, the Federal Reserve-F.D.I.C. campaign for realistic bank condition statements drew a commendation earlier this month from the Chairman of the Legal and Monetary Affairs Subcommittee of the House of Representatives' Government Operations Committee, Dante B. Fascell.

In a report to Congress on November 22, a recommendation had been made by that Committee that the federal bank supervisory agencies make a coordinated, concerted, continued use of their powers of moral suasion to have the banking community refrain and desist from the use of nonpurpose transactions and from window dressing of bank reports and statements.

CONFIDENTIAL (FR)

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December 24, 1963

In the same report, the Committee observed that "the wider use of surprise dates for calls rather than traditional month-end or year-end dates would aid in reducing window dressing in call reports," but added that this "would not stop the practice in call reports, and would have no effect on the voluntary bank statements."

(Signed) Merritt Sherman

SHERMAN

4548

Item No. 7
12/24/63T E L E G R A M
LEASED WIRE SERVICEBOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON

December 26, 1963.

NOSKER - RICHMOND

Reurlets December 19, 1963, Board approves appointments of Lloyd W. Bostian, Jr. and Douglass H. Adams, at present assistant examiners, as examiners for Federal Reserve Bank of Richmond, effective January 1, 1964. It is noted Adams' father is executive vice president and director of Parkersburg National Bank, Parkersburg, West Virginia and that Adams is indebted to Mountain State Bank, Parkersburg, West Virginia, a nonmember bank of which he owns 26 shares of stock. Accordingly, approval of Adams' appointment is given with understanding he will not participate in any examination of Parkersburg National Bank so long as his father is officer or director thereof, or of Mountain State Bank so long as he is indebted to, or owns stock of, that institution.

(Signed) Elizabeth L. Carmichael

CARMICHAEL

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 8
12/24/63



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 24, 1963.

CONFIDENTIAL (FR)

Mr. Atherton Bean, Chairman,
Federal Reserve Bank of
Minneapolis,
Minneapolis, Minnesota 55440.

Dear Mr. Bean:

The Board of Governors approves the payment of salary to Mr. Frederick L. Deming as President of the Federal Reserve Bank of Minneapolis for the period January 1 through December 31, 1964, at his current rate of \$40,000 per annum, if so fixed by your Board of Directors.

You were advised previously of Board approval of the payment of salary to First Vice President Strothman during the calendar year 1964 at the rate of \$25,000 per annum.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Merritt Sherman".

Merritt Sherman,
Secretary.