Minutes for February 4, 1964

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 Tuesday, February 4, 1964. 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. Daane

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Molony, Assistant to the Board
Mr. Hackley, General Counsel
Mr. Brill, Director, Division of Research and Statistics
Mr. Farrell, Director, Division of Bank Operations
Mr. Solomon, Director, Division of Examinations
Mr. Johnson, Director, Division of Personnel Administration
Mr. Connell, Controller
Mr. O'Connell, Assistant General Counsel
Mr. Shay, Assistant General Counsel
Mr. Conkling, Assistant Director, Division of Bank Operations
Mr. Kiley, Assistant Director, Division of Bank Operations
Mr. Goodman, Assistant Director, Division of Examinations
Mr. Smith, Assistant Director, Division of Examinations
Mr. Leavitt, Assistant Director, Division of Examinations
Mrs. Semia, Technical Assistant, Office of the Secretary
Miss Hart, Senior Attorney, Legal Division
Mr. Hricko, Senior Attorney, Legal Division
Mr. Collier, Chief, Current Series Section, Division of Bank Operations
Mr. Hunter, Supervisory Review Examiner, Division of Examinations
Mr. Harris, Assistant Review Examiner, Division of Examinations
Discount rates. The establishment without change by the Federal Reserve Bank of Boston on February 3, 1964, 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.

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

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<td>Letter to The Brooks Bank and Trust Company, Torrington, Connecticut, approving the establishment of a branch in the Torrington Downtown Shopping Center.</td>
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<td>Letter to the Federal Reserve Bank of San Francisco authorizing the waiver of a penalty incurred by Bank of Utah, Ogden, Utah, because of a deficiency in its required reserves.</td>
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<td>3</td>
<td>Letter to Columbia National Bank of Chicago, Chicago, Illinois, granting its request for permission to maintain reduced reserves.</td>
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<td>Letter to Valley Bank of Nevada, Reno, Nevada, approving an extension of time for the bank to accomplish membership in the Federal Reserve System.</td>
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<td>Letter to the Federal Deposit Insurance Corporation regarding the application of Peoples Trust &amp; Savings Bank, Green Bay, Wisconsin, for continuation of deposit insurance after withdrawal from membership in the Federal Reserve System.</td>
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<td>6</td>
<td>Letter to the Federal Reserve Bank of Cleveland ratifying the waiver of a penalty incurred by First National City Bank of Alliance, Alliance, Ohio, because of a deficiency in its required reserves.</td>
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Letter to the Federal Reserve Bank of New York interposing no objection to a leave of absence, without pay, for Vice President Crosse while participating in a seminar on bank management at the University of Buenos Aires, Argentina.

Mr. Collier then withdrew from the meeting and Mr. Hexter, Assistant General Counsel, entered the room.

Application of Chemical Bank New York Trust Company. There had been distributed a memorandum dated January 24, 1964, from the Division of Examinations, along with other pertinent papers, regarding the application of Chemical Bank New York Trust Company, New York, New York, for consent to acquire the assets of and assume liability to pay deposits in The Bensonhurst National Bank of Brooklyn in New York, Brooklyn, New York. The Division recommended denial, while the Federal Reserve Bank of New York had recommended approval.

At the Board's request Mr. Leavitt commented on the application, basing his remarks primarily on the Division's memorandum. Among other things, he called attention to the fact that although the Comptroller of the Currency in 1962 approved a merger of Meadow Brook National Bank, Jamaica, New York, and Bensonhurst National, that merger was not consummated. Efforts to determine why the merger was not consummated had been unsuccessful.

During discussion, question was raised by Governor Mitchell as to whether there was any legal basis for holding that a bank the size of
Chemical should not be allowed to become any larger through merger. Response was made that administration of the Bank Merger Act so far had followed the theory that, while size was always a consideration, it did not afford sufficient reason of itself to warrant rejection of a merger application. On the one hand, size with overtones of monopoly or in a framework of over-reaching in terms of territory would be considered a significant factor. In some future case, on the other hand, the Board might conclude that it would be in the public interest for one of the large New York City banks to be allowed to acquire a small bank in, say, Westchester County, depending on all the circumstances of the case.

Secretary's Note: A memorandum from Mr. Shay and Miss Hart discussing the aforementioned question and another question raised at this meeting--the weight to be given to the property interest of the shareholders in a merging bank--was distributed to the Board under date of February 6, 1964.

Other comments brought out that in the judgment of the Division of Examinations the premium being offered by Chemical in the proposed transaction compared reasonably with the probable cost to Chemical of opening two de novo branches in the Bensonhurst area and getting them into profitable operation.

Governor Balderston asked whether the Board had any special responsibility in regard to the property interest of the stockholders of Bensonhurst National. Banking was a business that could be entered into only under charter, and could be left through the merger route
only with the approval of the supervisory authorities. Under the applicable statutes, should the stockholders be denied an advantageous opportunity to sell their property? Response was made that although parties could participate in the banking business only under certain restrictions, they also were accorded certain privileges. Supervisory agencies were charged with responsibilities looking toward maintenance of sound banking conditions and toward preventing mergers or holding company expansion that could result in destructive competition. Denial of a particular merger proposal did not mean that the owners of a bank were precluded from leaving the banking business; they could develop and present alternative proposals.

There was also discussion of the possible bearing upon the present proposal of the Bensonhurst-Meadow Brook proposal that was abandoned. Question was raised whether, if the earlier proposal had been abandoned because Chemical had come forward with a better offer, denial of the current application by the Board might involve some element of injustice to the shareholders in depriving them of an opportunity for a more favorable disposition of their property. An opposite possibility also was suggested; namely, that approval of the Chemical application might in some way create embarrassment to the Board. However, the consensus was that the circumstances surrounding the dropping of the earlier proposal, which were a matter of conjecture, did not appear to be germane to disposition, on its merits, of the present application.
Question was asked whether it would be desirable to order an oral presentation regarding the current application, but it was the general view that such a presentation probably would fail to develop any significant information not already available to the Board.

The members of the Board then expressed their views beginning with Governor Mills, who stated that he would approve the application. In his judgment, the factors that the Board was required to consider were largely neutral, and disapproval would deny the expressed wishes of the parties to the proposal without good and sufficient reason. The Division's analysis of the application did not indicate that approval of the merger would result in either a tendency toward monopoly or in over-concentration of banking resources in the hands of Chemical. In the large urban community in which the merger would occur there was a large variety of competing banking facilities available, as well as other types of financial institutions. The effect of the transaction would be merely to inject into the Brooklyn financial complex two additional branches of Chemical without, as he saw it, upsetting or doing violence to the competitive situation.

Governor Robertson stated that he would accept the Division's recommendation of denial. The Division had expressed the view that the merger would result in a diminution of competition - an adverse competitive factor that he would weigh more heavily than the Division. The merger would eliminate one type of bank from the community - a small but good bank.
It seemed to him that it was desirable to have as many competitive sources as were viable, and that unless there was some definite benefit to the public interest in a merger, it should be denied. In this case, the high premium being paid indicated to him that Chemical was interested primarily in the growth factor. Although management succession difficulties at Bensonhurst had been cited as a reason for the merger, he did not regard those difficulties as insuperable; the difficulty of recruitment was a story that was told in almost every case of this kind. The fact that Bensonhurst was a "one-man institution" was insufficient basis, in itself, for approval of the merger.

Governor Shepardson, referring to the question whether Chemical might be following a predatory path by outbidding the Meadow Brook proposal, commented that he was not inclined to that view. He did not believe a bank would be likely to make a merger offer to another institution if a merger application involving that institution had been approved by the supervisory authorities and was presumably about to be consummated. As to the current application, although there might be some slight diminution of competition, such an effect was not to be weighed too heavily in a situation where many institutions of various types provided an adequate number of alternate banking choices. He did not believe that a reduction in numbers of banks was automatically bad; the degree to which it was adverse depended upon the available banking facilities remaining. The point that to him would be the determining
circumstance was whether or not there was concentration of banking resources to a degree that was significantly detrimental. In this case there probably would not be a great deal of advantage to the community from the merger, but also probably no great disadvantage. The success of Bensonhurst National was largely based on the capabilities of one individual, and that individual desired to get out of the banking business. He was of an age where that desire was understandable. Denial of the merger application could leave the bank in difficulty with regard to management, especially since the stock of the bank was closely held. Therefore, Governor Shepardson said, he would approve the application, giving consideration to the management problem notwithstanding the fact that a $30 million bank ought to be able to hire an adequate chief executive.

Governor Mitchell stated that as he saw it, unless there was a valid legal theory under which a large New York City bank like Chemical should not be allowed to grow larger by merger, the application should be approved. Brooklyn was overwhelmingly dependent on the large New York banks; while there were no doubt some people who preferred to use the facilities of a small bank, they were a small fraction of the community. He came back to the general principle that if a man wanted to get out of business, he should be allowed to do so, other things being equal.

Governor Daane expressed the view that, since Bensonhurst National would no doubt have other chances to merge, and since the current proposal
offered no substantial advantages except to Chemical, the greater benefit to the public interest lay in maintaining for a while longer the competitive strength of Bensonhurst. Therefore, he would go along with disapproval.

Governor Balderston commented that Bensonhurst was not offering its customers trust services. On the other hand, elimination of the bank would result in a reduction in the number of banking choices left to the people of Brooklyn. While in Brooklyn there was only one banking office to every 22,000 people, the population there was highly concentrated, and ratios that were significant elsewhere, such as in Denver, were not particularly meaningful. He found a very slight service advantage and a very slight competitive disadvantage; on balance, he would approve.

Chairman Martin commented that when a man has about completed his career and wants to get out of business, knowledge of this situation hurts the group he has pulled together. It becomes difficult to develop new business, and the morale of the institution goes down. This appeared to be such a situation, and there seemed to be some detriment to the community interest in continuing the status quo. Competition was hardly being throttled in the Brooklyn area, and he would approve.

The application of Chemical Bank New York Trust Company to consolidate with The Bensonhurst National Bank of Brooklyn in New York was thereupon approved, Governors Robertson and Daane dissenting. It was understood that the Legal Division would prepare for the Board's
consideration a draft of order and statement reflecting this decision, and that statements reflecting the dissents by Governors Robertson and Daane would also be prepared.

Messrs. Hexter and Conkling then withdrew from the meeting.

Application of Chemical Bank New York Trust Company. There had been distributed a memorandum dated January 27, 1964, from the Division of Examinations, along with other pertinent papers, relating to the application of Chemical Bank New York Trust Company, New York, New York, for consent to merge with The First National Bank of Mount Vernon, Mount Vernon, New York. The Division recommended approval.

After Mr. Leavitt had summarized the facts and views developed in the Division's memorandum, he responded to several questions bearing upon the application.

Chairman Martin then called for expressions from members of the Board, and Governor Mills stated that he would approve for the reasons cited by the Division of Examinations.

Governor Robertson indicated that he would deny on the same basis as his vote for denial of the Chemical-Bensonhurst application, which the Board had just considered. He did not consider that the distinctions between the two applications were sufficient to warrant his taking a different position regarding this one.

Governor Shepardson stated that he concurred with the Division's recommendation of approval.
Governor Mitchell stated that he would approve, principally on the ground that the merger would remove the home office protection rule in Mount Vernon under New York State law.

Governor Daane expressed the view that this application presented a sufficiently different set of circumstances from the Bensonhurst case to warrant its approval.

Governor Balderston commented that he found it easier to form a judgment on this case than on the preceding one, principally because of the opportunity to remove the home office protection feature in Mount Vernon.

Chairman Martin also indicated that he would approve.

The application of Chemical Bank New York Trust Company to merge with The First National Bank of Mount Vernon was thereupon approved, Governor Robertson dissenting. It was understood that the Legal Division would prepare a draft of an order and statement reflecting this decision, and that a statement reflecting Governor Robertson's dissent also would be prepared.

Mr. O'Connell and Miss Hart then withdrew from the meeting and Messrs. Young and Noyes, Advisers to the Board, and Mrs. Sette, Chief, Economic Editing, Division of Research and Statistics, entered the room.

Application of Rhode Island Hospital Trust Company. There had been distributed a memorandum dated January 30, 1964, from the Division of Examinations, along with other pertinent papers, in connection with
the application of Rhode Island Hospital Trust Company, Providence, Rhode Island, for consent to purchase the assets of Wickford Savings Bank, Wickford, Rhode Island. The Division recommended approval.

At the Board's request, Mr. Leavitt commented on the application, basing his remarks substantially on the information presented in the memorandum.

In the ensuing discussion, all of the members of the Board indicated that they would favor approval of the proposed transaction, Governor Mills adding that fundamentally the merger would substitute a commercial bank office for a savings bank in Wickford, thus broadening the banking services available to the community. Interest on savings deposits would be paid at a lower rate. However, there was a savings bank located within three miles that paid a higher rate, so the situation should not work to the disadvantage of savings depositors who wished to seek the highest rate available.

The application was then approved unanimously, it being understood that the Legal Division would prepare drafts of an order and supporting statement for the Board's consideration.

Messrs. Hackley, Shay, Goodman, Leavitt, Hricko, Hunter, and Harris then withdrew from the meeting.

Annual Report. There had been distributed a memorandum dated January 30, 1964, from Mr. Molony, to which was attached a draft of the text of the first section of the Board's Annual Report for 1963.
After a discussion during which several members of the Board indicated that they had changes of an editorial nature to suggest, it was understood that such suggestions would be furnished to Mr. Molony, who would take them into account in preparing the material in final form.

Mr. Brill and Mrs. Sette then withdrew from the meeting.

**Check collection operation at Boston Reserve Bank.** On December 2, 1963, following a discussion of the report of examination of the Federal Reserve Bank of Boston made by the Board's examining staff as of August 12, 1963, the Board requested that Messrs. Farrell and Kiley visit the Bank to inquire into various matters, primarily the status of operations in the Check Collection Department. There had now been distributed a memorandum dated January 13, 1964, in which Messrs. Farrell and Kiley reported their findings.

At the Board's request, Mr. Farrell summarized and supplemented the information on the several matters covered in the memorandum, bringing out especially that operating difficulties in the Check Collection Department were attributable primarily to the magnitude of check volume (the third largest of any of the Reserve Banks) and inadequacies of the high-speed equipment that had been in use, which equipment was being replaced with equipment of a different manufacturer. He described improvements that had been effected in operations recently, along with measures that were being taken looking toward further improvement. In
capsule, the difficulties experienced in the Check Collection Department appeared to be temporary. The situation had been quite satisfactory in early 1963, and the problems that subsequently developed apparently had reached their most acute stage prior to or around the time of the August 1963 examination.

In the light of questions raised by President Ellis and Vice President Turner about certain of the comments in the examination report, Messrs. Farrell and Kiley had suggested to President Ellis that in the future, whenever the examiners made critical comments, he might wish to consider the desirability of informing the Board of any corrective action or other developments concerning the matters criticized, or of any disagreement with such comments. President Ellis had not favored this suggestion, feeling that it would lead to a proliferation of reports, and countered with a proposal that the examinations be programmed so that a draft of the report would be available for study by the President and discussion with the Chief Examiner prior to the final writing of the report.

Governor Robertson expressed the view that a procedure such as President Ellis had suggested would be incompatible with examining principles. The examiner should report conditions as he saw them, and it was the role of the Division of Bank Operations, or other appropriate staff, to follow up on comments in the examination reports that seemed to call for further investigation.

Mr. Solomon noted that there appeared to be substantial agreement between the report of examination of the Federal Reserve Bank of Boston,
as it related to the check collection function, and the report made by Messrs. Farrell and Kiley after their visit. As to the comments that had been made with respect to communications between the examiners and Reserve Bank personnel, in this particular case the text of what was to be in the report regarding the Check Collection Department had been shown to First Vice President Latham and Vice President Turner. President Ellis had been away from the Bank during the better part of the examination, not returning until the day before it was concluded.

Mr. Solomon stated that the examiners would continue to do everything they could to see that any comments in examination reports were accurate, and to get the benefit of any views of Reserve Bank officers. For some years the Board had had outside auditors come in to review the work of its examiners, and those firms presumably would have called attention to any lack of appropriate communication between the examiners and Reserve Bank officers.

Mr. Solomon also stated that the Farrell-Kiley report contained a number of references to the work of the Board's examiners that he thought might be susceptible to misinterpretation. In response to a request by the Board, he indicated that he would furnish a memorandum on those points for the Board's information.

Secretary's Note: Such a memorandum was distributed to the Board under date of February 4, 1964.

Reserve Bank expenditures. Governor Robertson asked if the Board was satisfied that discretionary expenditures of the Reserve Banks
were being adequately covered in examination reports, noting that recent comments by Congressman Patman on certain expenditures had raised anew the necessity for being sure that examiners brought to the Board's attention any questionable items.

Governor Mills expressed concern, stating that in his opinion the information released by Congressman Patman had pointed up types of expenditures that should be brought before the Board regularly for review and consideration.

Mr. Solomon commented that the Division of Examinations recognized its responsibility to bring to the Board's attention any expenditures that conflicted with the standards outlined in the Board's outstanding letters to the Federal Reserve Banks. It had been judged that expenditures such as those mentioned by Mr. Patman fell generally within the latitude permitted by the Board's letters. Possibly the Division had been remiss in not raising for consideration a tightening of those guidelines.

Governor Mills expressed the view that the Board's letters were not sufficiently specific, and that the Division of Examinations should have brought to the Board the question whether the guidelines were adequate to enable the Board to exercise its statutory responsibility for supervising the Federal Reserve Banks.

In further discussion, Mr. Farrell noted that there was in preparation a memorandum looking toward the possibility of requiring
the Reserve Banks to submit information to the Board regularly on various categories of discretionary expenditures.

The discussion concluded with an observation by Chairman Martin that the subject would seem to warrant full consideration at another meeting of the Board when more time was available.

The meeting then adjourned.

**Secretary's Note:** Pursuant to the recommendation contained in a memorandum from the Board's General Counsel, Governor Shepardson today approved on behalf of the Board the appointment of John William Via, Jr., as Senior Attorney in the Legal Division, with basic annual salary at the rate of $9,980, effective February 10, 1964.
Board of Directors,
The Brooks Bank and Trust
Company,
Torrington, Connecticut.

Gentlemen:

The Board of Governors of the Federal Reserve System approves the establishment by The Brooks Bank and Trust Company, Torrington, Connecticut, of a branch at 1 South Main Street in the Torrington Downtown Shopping Center, Torrington, Connecticut, provided the branch is established within six months from the date of this letter.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

(The letter to the Reserve Bank stated that the Board also had approved a six-month extension of the period allowed to establish the branch; and that if an extension should be requested, the procedure prescribed in the Board's letter of November 9, 1962 (S-1346), should be followed.)

Mr. Eliot J. Swan,
First Vice President,
Federal Reserve Bank
of San Francisco,
San Francisco, California.  94120

Dear Mr. Swan:

This refers to your letter of January 16, 1964, regarding a penalty of $210.96 incurred by the Bank of Utah, Ogden, Utah, on an average daily deficiency in reserves of $100,000 for the biweekly computation period ended December 25, 1963.

It is noted that (1) the deficiency occurred largely because of the bank's error in drawing a draft on its reserve account instead of on its account with a correspondent; and (2) if the transfer draft had been drawn on its correspondent, as intended, there would have been an average daily deficiency of $25,000, which could have been waived under rule C.

In the circumstances, the Board authorizes your Bank to waive the assessment of the penalty of $210.96 for the period ended December 25, 1963.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.

Board of Directors,
Columbia National Bank
of Chicago,
Chicago, Illinois.

Gentlemen:

With reference to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors, acting under the provisions of Section 19 of the Federal Reserve Act, grants permission to the Columbia National Bank of Chicago to maintain the same reserves against deposits as are required to be maintained by nonreserve city banks, effective as of the date it opens for business.

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 Directors,
Valley Bank of Nevada,
Reno, Nevada.

Gentlemen:

The Board of Governors of the Federal Reserve System extends to March 2, 1964, the time within which admission to membership in the Federal Reserve System may be accomplished by Valley Bank of Nevada, Reno, Nevada.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.
Mr. Edward H. DeHority, Deputy Chief,
Division of Examination,
Federal Deposit Insurance Corporation,
Washington, D. C. 20429.

Dear Mr. DeHority:

Reference is made to your letter of January 17, 1964, concerning the application of Peoples Trust & Savings Bank, Green Bay, Wisconsin, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

No corrective programs which the Board of Governors believes should be incorporated as conditions to the continuance of deposit insurance have been urged upon or agreed to by the bank.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,
Assistant Secretary.

Mr. John J. Hoy, Assistant Vice President,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio. 44101

Dear Mr. Hoy:

This refers to your letter of January 16, 1964, regarding a penalty of $36.93 incurred by the First National City Bank of Alliance, Alliance, Ohio, for the biweekly computation period ended December 25, 1963.

In the circumstances outlined in your letter, the Board ratifies the waiving by your Bank of the $36.93 penalty.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,
Secretary.
Mr. Thomas M. Timlen, Jr., Secretary,  
Federal Reserve Bank of New York,  
New York, New York 10045.

Dear Mr. Timlen:

Reference is made to your letter of January 17, 1964, advising that the Federal Reserve Bank of New York has granted a leave of absence, without pay, to Vice President Howard D. Crosse while participating in a seminar on bank management at the University of Buenos Aires, Argentina. It is understood that the seminar, scheduled for June 29 to August 7, is offered by the Columbia Graduate School of Business in accordance with a contract with the Agency for International Development and that Mr. Crosse will participate for a period of three weeks.

The Board of Governors interposes no objections to the leave granted Mr. Crosse and other arrangements in connection therewith approved by your Board of Directors, as reported in your letter.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.