



Minutes of the Board of Governors of the Federal Reserve System on Thursday, February 13, 1964. The Board met in the Board Room at 10:00 a.m.

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

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Cardon, Legislative Counsel  
Mr. Fauver, Assistant to the Board  
Mr. Brill, Director, Division of Research and Statistics  
Mr. Solomon, Director, Division of Examinations  
Mr. Hexter, Assistant General Counsel  
Mr. O'Connell, Assistant General Counsel  
Mr. Thompson, Assistant Director, Division of Examinations  
Mr. Mattras, General Assistant, Office of the Secretary  
Mr. Young, Senior Attorney, Legal Division  
Mr. Egertson, Supervisory Review Examiner, Division of Examinations

Circulated item. The following item, a copy of which is attached to these minutes as Item No. 1, was approved unanimously:

Letter to the Federal Reserve Bank of New York interposing no objection to the proposed foreign travel program of the Bank for the current year.

Request of Pacific State Bank. There had been distributed a memorandum from the Division of Examinations dated February 5, 1964, regarding a request by Pacific State Bank, Hawthorne, California, for permission, under the provisions of section 24A of the Federal Reserve Act, to invest in bank premises an additional amount in excess of the capital stock of the bank. According to the memorandum, the bank's general condition was unsatisfactory, and there had recently been large

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loan charge-offs. Management was regarded as poor, and the bank's capital structure was inadequate. On December 30, 1963, representatives of the Federal Reserve Bank of San Francisco, the California State Banking Department, and the Federal Deposit Insurance Corporation met with the management of the bank. It was reported that the bank was attempting to employ new executive officers and was considering the sale and leaseback of certain bank premises. The bank had now charged off all losses and one-half of doubtful classifications estimated in the December 1963 examination report and was considering the possibility of a merger. In addition, the sale of \$1 million of capital debentures was under consideration.

On February 12, 1962, the Board had approved an additional investment in bank premises of \$562,100 and on June 26, 1963, the Board approved a further investment of \$25,000. As of November 29, 1963, however, the investment in bank premises totaled approximately \$14,500 more than approved by the Board. The subject bank now wished to obtain approval of the amount spent in excess of previous Board approval and an additional amount of \$21,000 to purchase a parking lot adjoining the bank's main office. There was some indication that one of the bank's directors might purchase the lot and lease it to the bank if approval of the proposed investment by the bank was not obtained.

The Division of Examinations noted that the Board could refuse to approve the proposed expenditure on the ground that no additional

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investment of this kind was justified in view of the bank's generally unsatisfactory condition. However, the Division recommended, on balance, that no objection be taken to the unauthorized investment of approximately \$14,500, and that approval be given to the investment of an additional \$21,000 for the purchase of the parking lot on the ground that the amount involved was not substantial and that there was apparently a real parking need as far as customer convenience was concerned. Acquisition of the lot might also enhance the value of the bank's present property, which it was contemplated would soon be sold by the bank under a leaseback arrangement.

Governor Robertson stated that this was a case where the applicant bank was in unsatisfactory condition, with inadequate capital, asset problems, and other difficulties. It had already made an investment in premises exceeding that approved by the Board and was seeking approval of an additional investment. The various circumstances involved suggested that the bank's directors were not properly carrying out their responsibilities. Moreover, approval of the proposed additional investment in a parking lot was not crucial since there was an indication that one of the bank's directors was prepared, if necessary, to purchase the lot and lease it to the bank. As a result, Governor Robertson said, he would not approve the current request or take action to sanction the excess expenditure already made. This

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would do no harm to the bank but would indicate that the Board was not willing to go along with the current situation at the bank.

After discussion of various aspects of the matter it was agreed, at the suggestion of Chairman Martin, that the Federal Reserve Bank of San Francisco would be advised informally that the Board was disposed to taking a dim view of the request and, in considering the matter further, would appreciate any additional comments from the Reserve Bank in support of its favorable recommendation.

Mr. Egertson then withdrew from the meeting.

Application of Baystate Corporation. There had been distributed a memorandum from the Legal Division and the Division of Examinations dated February 10, 1964, regarding the timing of Board action on an application of Baystate Corporation, Boston, Massachusetts, under the Bank Holding Company Act. On November 7, 1963, the corporation filed an application for Board approval of the acquisition of voting shares of Merrimack Valley National Bank, Haverhill, Haverhill, Massachusetts. As required by Massachusetts law, it had also requested approval of the acquisition from the Massachusetts Board of Bank Incorporation, and a public hearing had been set for February 13, 1964, before the Massachusetts Board. The Division of Examinations' memorandum and recommendation on the application, accompanied by the memorandum from the Federal Reserve Bank of Boston, would be ready for distribution to the Board shortly. However, the Board might wish to defer action until after the decision

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of the Massachusetts Board was announced, thus taking advantage of any additional information that might be brought out at the State hearing and avoiding the possibility of a prior, but unpublished, approval of the Board of Governors followed by denial by the Massachusetts Board, so that the Board of Governors' decision would be of no practical effect. The Legal and Examinations Divisions recommended that Board consideration of the application be suspended until after the final decision of the Massachusetts Board.

After discussion, the Board agreed to delay consideration of the application, with the understanding that Baystate Corporation would be advised informally that this was the Board's intent.

S. 750. There had been distributed a draft of letter addressed to Chairman Robertson of the Senate Committee on Banking and Currency in response to a request for a report on 83 questions regarding S. 750, a bill to assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extensions of credit. The draft reply would advise that the Board's staff had discussed the request with the staff of the Federal Trade Commission, which had also been requested to submit answers to the same questions and was preparing responses, and that it might therefore be more appropriate for the Board not to provide separate answers to the questions.

Mr. Cardon informed the Board that he had just received advice that Chairman Robertson would like to have answers from the Board with

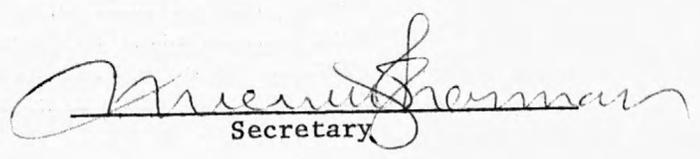
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regard to the 83 questions. Accordingly, it was understood that the staff would draft answers to the questions for the Board's consideration.

Visit of State Bank Supervisors. The Board authorized extending to the officers of the National Association of Supervisors of State Banks an invitation to visit the Board on April 1, 1964, for luncheon and a conference with available members of the Board.

The meeting then adjourned.

Secretary's Note: Pursuant to the recommendation contained in a memorandum from the Division of Research and Statistics, Governor Robertson, acting in the absence of Governor Shepardson, today approved on behalf of the Board the appointment of David Michael Duren as Statistical Clerk in that Division, with basic annual salary at the rate of \$4,090, effective the date of entrance upon duty.

  
Secretary

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

Item No. 1  
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ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 13, 1964.

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

Dear Mr. Hayes:

The memorandum dated January 16, 1964 outlining the foreign travel program of the Federal Reserve Bank of New York for the current year, which you forwarded with your letter of January 17, has been brought to the attention of the Board of Governors.

The Board has no objection to the program as outlined in the memorandum and understands that the proposed trips are subject to change as to country and timing if circumstances make such changes desirable.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.